

NEW ISSUE
Book-Entry-Only

RATINGS:
(See "Ratings" herein)

In the opinion of Underberg & Kessler LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance by the Authority with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986 (the "Code"), interest on the Series 2015-A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and will not be treated as a preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, but such interest will be includable in adjusted current earnings in computing the federal alternative minimum tax imposed on certain corporations. Moreover, interest on the Series 2015-A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including the City of New York). See "TAX MATTERS" herein.

BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
\$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A

Dated: Date of Delivery

Due: As shown on inside cover

The Series 2015-A Bonds (the "Bonds" or the "Series 2015-A Bonds") will be issued by the Buffalo Municipal Water Finance Authority (the "Authority"), pursuant to the Buffalo Municipal Water Finance Authority Act, constituting Title 2-B of Article 5 of the Public Authorities Law of the State of New York, as amended. The Bonds are being issued for the purpose of refunding the outstanding principal amount of the Water System Refunding Bonds, Series 2008-A (the "Refunded Bonds") of the Authority and to pay certain other expenses, including costs of issuance of the Series 2015-A Bonds. The Series 2015-A Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and lien on the gross revenues of the Water System (the "System") owned and operated by the Buffalo Water Board (the "Board"). The Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and lien on the gross revenues of the System.

THE AUTHORITY HAS NO TAXING POWER. THE SERIES 2015-A BONDS ARE NOT A DEBT OF THE STATE OF NEW YORK, THE CITY OF BUFFALO, NEW YORK (THE "CITY"), OR THE BOARD AND NEITHER THE STATE OF NEW YORK, THE CITY, NOR THE BOARD IS LIABLE ON THE BONDS.

The Series 2015-A Bonds are subject to redemption prior to maturity, as described herein. See "REDEMPTION PROVISIONS" herein.

The Series 2015-A Bonds are issuable in the form of fully registered bonds without coupons in the denominations of \$5,000 or integral multiples thereof. The Series 2015-A Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2015-A Bonds. Individual purchases will be made in book-entry only form (without certificates) in the principal amount of \$5,000 or integral multiples thereof. So long as Cede & Co. is the registered owner of the Series 2015-A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid. and shall not mean the Beneficial Owners of the Series 2015-A Bonds.

Interest on the Series 2015-A Bonds is payable on January 1 and July 1, commencing on January 1, 2016.

So long as Cede & Co. is the registered owner of the Series 2015-A Bonds, as aforesaid, principal and interest will be payable by U.S. Bank, National Association, New York, New York, as Trustee and Paying Agent, directly to Cede & Co., as nominee for DTC. Disbursements of such payments to Direct Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants. See "THE SERIES 2015-A BONDS" and "BOOK-ENTRY ONLY SYSTEM" herein.

THE SERIES 2015-A BONDS WILL BE DELIVERED ON OR ABOUT JUNE 3, 2015 (THE "SETTLEMENT DATE"). ALL INFORMATION CONTAINED HEREIN IS BASED UPON INFORMATION AVAILABLE AS OF THE DATE HEREOF, UNLESS OTHERWISE INDICATED. THE AUTHORITY EXPRESSLY RESERVES THE RIGHT TO ISSUE ADDITIONAL BONDS FROM THE DATE OF THIS OFFICIAL STATEMENT UNTIL THE SETTLEMENT DATE.

The Series 2015-A Bonds are offered, subject to prior sale, when, as and if issued by the Authority and received by the Underwriters, subject to the approval of legality of the Series 2015-A Bonds by Underberg & Kessler LLP, Rochester, New York, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority, the Board and the City by the City's Corporation Counsel, and for the Underwriters by Harter Secrest & Emery LLP, Rochester, New York. Capital Markets Advisors, LLC, Orchard Park, New York, serves as Financial Advisor to the Authority. It is anticipated that the Series 2015-A Bonds will be available for delivery in New York, New York on or about June 3, 2015.

Ramirez & Co., Inc.

Citigroup

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

\$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A

Dated: Series 2015-A Settlement Date

Principal Due: July 1, as shown below
Interest Due: January 1, 2016, July 1, 2016 and semi-annually thereafter on January 1 and July 1 in each year until maturity

<u>MATURITY</u>	<u>AMOUNT</u>	<u>INTEREST RATE</u>	<u>YIELD</u>	<u>PRICE</u>	<u>CUSIP[†]</u>
07/01/2016	\$1,660,000	2.000%	0.640%	101.458	119699JA5
07/01/2017	1,650,000	5.000	1.000	108.204	119699JB3
07/01/2018	1,880,000	5.000	1.430	110.710	119699JC1
07/01/2019	1,585,000	5.000	1.700	112.946	119699JD9
07/01/2020	3,100,000	5.000	1.960	114.623	119699JE7
07/01/2021	3,300,000	5.000	2.240	115.599	119699JF4
07/01/2022	2,830,000	4.000	2.460	109.946	119699JG2
07/01/2023	2,940,000	5.000	2.670	116.827	119699JH0
07/01/2024	3,165,000	5.000	2.870	116.913	119699JJ6
07/01/2025	3,300,000	5.000	3.040	116.901	119699JK3
07/01/2026*	3,515,000	5.000	3.170	115.678	119699JL1
07/01/2027*	4,510,000	5.000	3.290	114.563	119699JM9
07/01/2028*	4,735,000	5.000	3.390	113.644	119699JN7
07/01/2029*	5,015,000	5.000	3.470	112.915	119699JP2
07/01/2030*	700,000	5.000	3.550	112.191	119699JQ0
07/01/2031*	760,000	5.000	3.610	111.652	119699JR8
07/01/2032*	795,000	5.000	3.670	111.117	119699JS6
07/01/2033	395,000	4.000	4.010	99.869	119699JT4
07/01/2034	400,000	4.000	4.050	99.337	119699JU1
07/01/2035	420,000	4.000	4.090	98.772	119699JV9

* Priced at the stated yield to the July 1, 2025 optional redemption date at a redemption price of 100%

† CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2015-A Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Series 2015-A Bonds or as indicated above.

**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
CITY HALL
BUFFALO, NEW YORK 14202**

MEMBERS

DONNA J. ESTRICH, VICE-CHAIR

HON. RICHARD A. FONTANA

ABBY SNYDER

**BUFFALO WATER BOARD
CITY HALL
BUFFALO, NEW YORK 14202**

MEMBERS

OLUWOLE A. McFOY, CHAIR

GERALD E. KELLY

WILLIAM L. SUNDERLIN

MICHAEL J. FINN

CHIEF FISCAL OFFICER - AUTHORITY
GENERAL COUNSEL - AUTHORITY
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BOND COUNSEL
CONSULTING ENGINEER
FINANCIAL ADVISOR
RATE CONSULTANT

UNDERBERG & KESSLER LLP
CRA INFRASTRUCTURE & ENGINEERING, INC.
CAPITAL MARKETS ADVISORS, LLC
LISA A. FOTI, CPA

No dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representation, other than those contained in this Official Statement. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Series 2015-A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Board, and the City since the date hereof. The information set forth herein has been provided by the Authority, the Board, and the City, but is not guaranteed as to its accuracy or completeness and is not construed as a representation by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its position in this Official Statement. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained herein and the subject matter thereof.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates” and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Board or the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Board and the Authority disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Board or the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015-A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

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SUMMARY STATEMENT

The following summary is subject in all respects to the additional information contained in this Official Statement, including the Appendices attached hereto, and was prepared in connection with the Authority's sale of its \$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A (the "Series 2015-A Bonds"). Defined terms have the same meaning herein as elsewhere in the text.

USE OF PROCEEDS

The Series 2015-A Bonds are being issued (i) to refund the outstanding principal amount of the Authority's \$62,020,000 original principal amount Water System Revenue Refunding Bonds, Series 2008-A (the "Refunded Bonds") and (ii) to pay certain costs of issuance of the Series 2015-A Bonds, including debt service reserve requirements and costs of issuance of the Series 2015-A Bonds.

As of their date of issuance, \$61,500,000 of the variable rate Water System Refunding Bonds, Series 2008-A (the "Hedged Series 2008-A Bonds") were hedged by means of an interest rate swap that has a current notional amount of approximately \$53,700,000. The Authority will notify the swap provider on June 3, 2015 of its intent to terminate the swap at par on July 7, 2015, after which the Authority will no longer have any variable rate bonds or interest rate swaps outstanding.

THE SYSTEM

The System provides an average of 63.2 million gallons per day (mgd) of water to 72,700 active accounts. It supplies water within the City of Buffalo and a small number of commercial and residential accounts surrounding the City of Buffalo and consists of approximately 785 miles of pipe, 12,120 line valves, 7,400 fire hydrants, one active Water Intake, two Pumping Plants, a Pumping Plant Complex housing a Distribution department, inventory stores, one Filtration Plant, one treated water Reservoir and five Storage Tanks.

CAPITAL IMPROVEMENTS PROGRAM

The current Capital Improvement Plan as approved by the Board covers the period through Fiscal Year 2015-2020 and assuming the implementation of this program and continued maintenance and service to System facilities, the expected life of the System should exceed 30 years (see "THE SYSTEM - Approved Capital Improvement Plan").

REVENUE PLEDGE

The Series 2015-A Bonds are special obligations of the Authority, payable solely from and secured by a pledge of all rates, fees, charges, payments and other income received by the Board (the "Revenues") (except certain monies or securities on deposit or required to be deposited in the Rebate Fund) all moneys or securities in any of the Funds and Accounts established under the Resolution (other than the Rebate Fund), and all other moneys and securities to be received, held or set aside pursuant to the Resolution; subject only to provisions of the Resolution, the Act and the Financing Agreement relating to the use and application thereof.

DEBT SERVICE
RESERVE
FUND

The Authority will maintain appropriate balances in the Debt Service Reserve Fund so that the amount on deposit therein will be equal to the Debt Service Reserve Requirement as defined in the Resolution.

RATE
COVENANT

The Board has covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues received by the Board in such Fiscal Year will be at least equal to the sum of (i) 115% of estimated Aggregate Debt Service on all outstanding bonds and on any Projected Series of Bonds payable in such Fiscal Year, and (ii) 100% of the Operating Expenses, Authority Expenses and Required Deposits for such Fiscal Year. It should be noted that recent policy and practice of the Board has been to establish rates at a level sufficient to increase the Revenue for the Fiscal Year so that it is at least equal to 150% of Aggregate Debt Service payable in such Fiscal Year on all Bonds Outstanding and on any series of Bonds expected to be Outstanding during such Fiscal Year and 100% of the Operating Expenses, Authority Expenses and Required Deposits for such Fiscal Year.

TRUSTEE

U.S. Bank, National Association (the "Trustee") will serve as Trustee for the Series 2015-A Bonds pursuant to the Resolution.

RATES

Rates, fees and charges are imposed by the Board and are not subject to regulatory approval, except as provided by law with respect to the supply of water to certain users outside of the City.

ADDITIONAL
BONDS

Additional Bonds secured on a parity with the Series 2015-A Bonds and the Outstanding Bonds may be issued to pay for capital improvements to the System, to refund all Outstanding Bonds and, upon authorization by the City, to refund outstanding general obligation Bonds or Notes of the City issued for System related purposes. Additional Bonds will be issued subject to financial tests specified in the Resolution, as described herein.

THE
AUTHORITY

The Authority, a separate legal entity established in 1985 and activated in 1992, has the power (i) to issue Bonds for any of its corporate purposes, including the financing of the acquisition of and renovations and improvements to the System by the Board, (ii) to require the Board to fix rates sufficient to pay the costs of operation and financing the System, and (iii) to require the Board to adequately maintain the System. The Authority has no taxing power.

THE BOARD

The Board, a separate legal entity established in 1985 and activated in 1992, acquired the System from the City on September 24, 1992. It is authorized to fix and collect rates, fees, rents and other service charges adequate to pay, among other things, the cost of operating and financing the System.

THE FINANCING AGREEMENT

Pursuant to the Financing Agreement, as amended, the Authority has agreed to finance all or a portion of the costs of the Projects through the issuance of Bonds or other indebtedness secured by Revenues.

THE ACQUISITION AGREEMENT

Pursuant to the Acquisition Agreement, the Board acquired the System from the City in 1992 at a purchase price equal to the sum of (i) a capital transfer payment of \$26,536,880 and (ii) an amount of \$6,215,000 plus unpaid interest on the City's outstanding Bond Anticipation Notes.

THE OPERATION AGREEMENT

Pursuant to the Operation Agreement amendment dated as of August 1, 1997, the Board is responsible for the management, operation, maintenance and repair of the System. The operation of the System may include the engagement of independent contractors for the fulfillment of the Board's duties and obligations with respect to the System.

THE MANAGEMENT AGREEMENT

On April 14, 2010, the Board approved a contract with Veolia Water North America-Northeast, LLC ("Veolia") for the management of the System. The agreement executed by Veolia has a term of ten (10) years commencing July 1, 2010. Furthermore, the Board has agreed to use the services of the employees of the City of Buffalo, Division of Water to operate, maintain, repair and improve the System as provided for in the Management Agreement with Veolia. (See "THE BOARD - Management of the System" and "APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Management Agreement").

CONTINUING DISCLOSURE

The Authority and the Board have undertaken to provide certain annual financial and operating information and information regarding certain events (see "CONTINUING DISCLOSURE OBLIGATIONS" and "APPENDIX G - FORM OF CONTINUING DISCLOSURE AGREEMENT").

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OFFICIAL STATEMENT

BUFFALO MUNICIPAL WATER FINANCE AUTHORITY

\$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, summary statement and appendices, presents information relating to the System (as hereinafter defined); the Buffalo Municipal Water Finance Authority (the "Authority"), a public benefit corporation created by the Buffalo Municipal Water Finance Authority Act, as amended (the "Authority Act"), constituting Title 2- B of Article 5 of the Public Authorities Law of the State of New York (the "State"); the Buffalo Water Board (the "Board"), a corporate municipal instrumentality created by Chapter 368 of the New York Laws of 1985, (the "Board Act") (the "Board Act" and the "Authority Act" are, for purposes of this Official Statement, hereinafter collectively referred to as the "Act"); and the Authority's \$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A (the "Series 2015-A Bonds").

The Series 2015-A Bonds will be issued by the Authority pursuant to its Water System General Revenue Bond Resolution (the "General Resolution"), adopted on November 20, 1992, as amended and supplemented from time to time, including by its Twenty-Eighth Supplemental Water System Revenue Refunding Bond Resolution, which is to be considered for adoption by the Authority on or about May 20, 2015 (the "Supplemental Resolution"). The General Resolution, as supplemented by the Supplemental Resolution and as the same may be further amended or supplemented, is referred to herein as the "Resolution". The Authority has appointed U.S. Bank, National Association, New York, New York, to act as trustee (the "Trustee") under the Resolution.

The Series 2015-A Bonds are being issued (i) to refund the outstanding principal amount of the Authority's Water System Revenue Refunding Bonds, Series 2008-A (the "Refunded Bonds") and (ii) to pay certain other expenses, including debt service reserve requirements and costs of issuance of the Series 2015-A Bonds.

Pursuant to an Acquisition Agreement dated as of September 24, 1992 (the "Acquisition Agreement") by and between the Board and the City of Buffalo (the "City"), the Board acquired title to the City's facilities for the collection, transmission and distribution of water (the "System"). Pursuant to the Operation Agreement amendment dated as of August 1, 1997 (the "Operation Agreement"), the Board is responsible for the management, operation, maintenance and repair of the System. The operation of the System may include the engagement of independent contractors for the fulfillment of the Board's duties and obligations with respect to the System. On April 14, 2010, the Board approved a contract with Veolia Water North America-Northeast, LLC ("Veolia") for the management of the system. The agreement executed with Veolia has a term of ten (10) years commencing July 1, 2010. Furthermore, the Board has agreed to use the services of the employees of the City of Buffalo, Division of Water to operate, maintain, repair and improve the System as provided for in the Management Agreement with Veolia.

The Board has also entered into a Financing Agreement, dated as of September 24, 1992, as amended as of July 7, 1995, June 19, 1996, August 1, 1997, and as further amended as of September 15, 2005 (the "Financing Agreement"), with the Authority and the City to provide for, among other things, the financing of capital improvements to the System through the issuance of bonds or other

obligations of the Authority. The Financing Agreement expressly incorporates both the Acquisition Agreement and the Operation Agreement.

The Series 2015-A Bonds are special obligations of the Authority, payable solely from and secured by a pledge of all rents, fees, charges, payments and other income received by the Board from users of the System and all investment proceeds received by the Board (the "Revenues") (except certain moneys or securities on deposit or required to be deposited in the Rebate Fund), all moneys or securities in any of the Funds and Accounts established under the Resolution (other than the Rebate Fund) and all other moneys and securities to be received, held or set aside pursuant to the Resolution; subject only to provisions of the Resolution, the Act and the Financing Agreement relating to the use and application thereof. The Board has covenanted in the Financing Agreement to maintain rates, fees and charges at sufficient levels so that Revenues received by the Board in each Fiscal Year will be at least equal to the sum of (i) 115% of the principal and interest coming due and projected to become due in such Fiscal Year on the Bonds, and (ii) 100% of the operation and maintenance expenses for the System and the Authority and (iii) 100% of the Required Deposits (see "SECURITY FOR THE SERIES 2015-A BONDS").

THE AUTHORITY HAS NO TAXING POWER. NEITHER THE STATE, THE CITY, NOR THE BOARD NOR ANY SUBDIVISION THEREOF WILL BE LIABLE ON THE BONDS AND SUCH BONDS WILL NOT BE A DEBT OF THE STATE, THE CITY OR THE BOARD NOR ANY SUBDIVISION THEREOF.

Rates, fees and charges are established by the Board and are not subject to regulatory approval nor are they subject to other regulations under current law, except as provided by law with respect to the supply of water to certain users outside the City (see "GOVERNMENTAL REGULATION" and "RATES AND BILLING").

Authority financing will pay for actual expenditures for improvements to be completed by vendors under construction contracts. Pursuant to the Financing Agreement, the Authority must retain an independent Consulting Engineer who shall recommend improvements to the System and provide estimates of the costs of such improvements. The approved Capital Improvement Plan ("CIP") anticipates an investment of approximately \$77,960,000 in the aggregate for Fiscal Years 2015 through 2020. The Authority anticipates that substantially all of the funds to implement the CIP will be provided from future bond issues and System Revenues. For further information regarding the CIP, see "THE SYSTEM - Approved Capital Improvement Plan" and "APPENDIX B - ENGINEERING REPORT- 2015 EVALUATION OF THE BUFFALO WATER SYSTEM."

The estimates, forecasts and projections contained in this Official Statement are based on, among other factors, evaluations of historical revenue and expenditure data and analyses of economic trends. The financial forecasts contained herein and in APPENDIX C hereto are subject to certain contingencies, which cannot be quantified and are subject to the uncertainties inherent in any attempt to forecast the results of future operations; accordingly, such financial forecasts are subject to periodic revision, which may involve substantial change. Consequently, the Authority and the Underwriters make no representation or warranty that these estimates and projections will be realized.

This Official Statement contains brief descriptions of the Series 2015-A Bonds, the Authority, the Board and the System, together with other information including summaries of the terms of the Series 2015-A Bonds, the Financing Agreement, the Acquisition Agreement, the Operation Agreement, the Management Agreement, and the Resolution. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Financing Agreement, the

Acquisition Agreement, the Operation Agreement, the Management Agreement, the Resolution, and the Series 2015-A Bonds are qualified by reference to such documents or instruments in their entirety. Copies of the Financing Agreement, the Acquisition Agreement, the Operation Agreement, the Management Agreement, and the Resolution are available from the Authority. Unless otherwise indicated herein, capitalized terms not otherwise defined herein will have the meanings given to such terms in APPENDIX E hereto.

SOURCES AND USES OF FUNDS

The Series 2015-A Bonds are being issued (i) to current refund the outstanding principal amount of the Refunded Bonds of the Authority and (ii) to pay certain other expenses, including debt service reserve requirements and costs of issuance of the Series 2015-A Bonds.

Buffalo Municipal Water Finance Authority
\$46,655,000 Water System Revenue Refunding Bonds,
Series 2015-A

Sources:

Par Amount of Series 2015-A Bonds	\$	46,655,000.00
Transfer from Refunded Bonds Debt Service Fund		2,926,567.33
Transfer from Refunded Bonds Debt Service Reserve Fund		493,454.48
Authority Equity Contribution		115,715.89
Original Issue Premium		6,158,954.90
Total:	\$	<u>56,349,692.6</u>

Uses:

Deposit to Escrow Fund	\$	55,828,668.38
Underwriting Discount		295,794.71
Costs of Issuance and Contingency		225,229.51
Total:	\$	<u>56,349,692.60</u>

As of their date of issuance, \$61,500,000 of the variable rate Water System Refunding Bonds, Series 2008-A (the “Hedged Series 2008-A Bonds”) were hedged by means of an interest rate swap that has a current notional amount of approximately \$53,700,000. The Authority will notify the swap provider on June 3, 2015 of its intent to terminate the swap at par on July 7, 2015, after which the Authority will no longer have any variable rate bonds or interest rate swaps outstanding.

AUTHORIZATION FOR THE SERIES 2015-A BONDS

The Authority will issue the Series 2015-A Bonds pursuant to the Act and the Resolution. Under the terms of the Act, the Authority is empowered to issue bonds to pay the cost of any water projects, to refund bonds then outstanding or for other Authority purposes, and to authorize the execution of the Resolution in connection with such issuance.

THE SERIES 2015-A BONDS

The following is a summary of certain provisions of the Series 2015-A Bonds. Reference is made to the Series 2015-A Bonds for the complete text thereof and to the Resolution for all of the provisions relating to the Series 2015-A Bonds. The discussion herein is qualified by such reference. For a more detailed description of such provisions, see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS – Summary of the Resolution”. Any reference herein to the Bonds or to the Resolution or other similar documents shall be deemed to mean the Bonds of a particular series or the documents related thereto, unless the context or use clearly indicates otherwise.

General

The Series 2015-A Bonds shall be dated June 3, 2015, shall bear interest from such date, payable semi-annually thereafter on January 1 and July 1 of each year, commencing January 1, 2016, at the rates and shall mature on the dates and in the principal amounts as set forth on the inside front cover of this Official Statement. Interest on the 2015-A Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The Series 2015-A Bonds will be issued only as fully registered bonds without coupons in the denominations of \$5,000 or any multiple thereof not exceeding the aggregate principal amount of Series 2015-A Bonds maturing in such year. The principal of and interest on all Series 2015-A Bonds are payable in any coin or currency of the United States of America at the corporate trust office of the Trustee in New York, New York.

So long as The Depository Trust Company (“DTC”), New York, New York or its nominee, Cede & Co., is the registered owner of the Series 2015-A Bonds, all payments with respect to the principal of and interest on the Series 2015-A Bonds and all notices with respect to the Series 2015-A Bonds will be made directly to Cede & Co., as nominee for DTC. Disbursements of such payments to the participants of DTC (“DTC Participants”) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners (as herein defined) of the Series 2015-A Bonds is the responsibility of the DTC Participants and not the Authority or the Paying Agent. See “BOOK-ENTRY-ONLY SYSTEM.”

Optional Redemption

The Series 2015-A Bonds maturing on or after July 1, 2026 will be subject to redemption prior to maturity at the option of the Authority on July 1, 2025 and thereafter on any date, as a whole or in part, as specified by the Authority, in such order of maturity as may be determined by the Authority (selected by lot within a maturity), at par, plus accrued interest to the date of redemption.

Notice of redemption shall be given by mailing such notice to the registered holders of the Series 2015-A Bonds to be redeemed at their respective addresses as shown upon the registration books of the Paying Agent at least 30 days prior to the date set for any such redemption. If notice of redemption shall have been given as aforesaid, the Series 2015-A Bonds so called for redemption shall become due and payable at the applicable redemption price on the redemption date designated in such notice, and interest on such Series 2015-A Bonds shall cease to accrue from and after such redemption date.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2015-A Bonds. The Series 2015-A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be

requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the entire aggregate principal amount of the Series 2015-A Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2015-A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015-A Bonds on DTC's records. The ownership interest of each actual purchaser of the Series 2015-A Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015-A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2015-A Bonds, except in the event that use of the book-entry system for the Series 2015-A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015-A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2015-A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015-A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015-A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2015-A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with

respect to the Series 2015-A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series 2015-A Bonds may wish to ascertain that the nominee holding the Series 2015-A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2015-A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2015-A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2015-A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2015-A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

In the event (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) the Authority, with the consent of the Trustee, determines in accordance with the terms of the Resolution that (a) DTC is incapable of discharging its duties or (b) it is in the best interests of the holders of the Series 2015-A Bonds not to continue the Book-Entry-Only System or that interests of the Beneficial Owners of the Series 2015-A Bonds might be adversely affected if the Book-Entry-Only System is continued, then the Authority will discontinue the Book-Entry-Only System with DTC. Upon the occurrence of the event described in (i) or (ii)(a) above, the Authority will attempt to locate another qualified securities depository. If the Authority fails to identify another qualified securities depository to replace DTC or makes the determination noted in (ii)(b) above, the Trustee will authenticate and deliver the Series 2015-A Bonds in accordance with the Resolution.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority, the Underwriter and the Trustee do not take responsibility for the accuracy thereof.

None of the Authority, the Trustee, or the Underwriter will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Direct or Indirect Participant of any Beneficial Owner to receive payment in the event of a partial redemption of the Series 2015-A Bonds, or (iv) any other action taken by DTC or its partnership nominee as owner of the Series 2015-A Bonds.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO, OR THE PROVIDING OF NOTICE FOR, SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

Transfer of Bonds

So long as Cede & Co., as partnership nominee for DTC (or such other name as may be requested by an authorized representative of DTC), is the Bondholder of Record of the Series 2015-A Bonds, beneficial ownership interests in the Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the Book-Entry-Only System operated by DTC. In the event the Book-Entry-Only System is discontinued, Series 2015-A Bond certificates will be delivered to the Beneficial Owners as described in the Supplemental Resolution. Thereafter, the Series 2015-A Bonds, upon surrender thereof at the principal office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the Beneficial Owner thereof or such Beneficial Owner's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Series 2015-A Bonds of the same series and maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring Series 2015-A Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver the Series 2015-A Bonds in accordance with the provisions of the Trust Agreement. For every such exchange or transfer of Series 2015-A Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor. Neither the Authority nor the Trustee shall be required to make any such exchange or transfer of Series 2015-A Bonds during the 15 days next preceding an Interest Payment Date or, in the case of any proposed redemption, during the 15 days next preceding the first publication or mailing of notice of redemption.

SECURITY FOR THE SERIES 2015-A BONDS

Revenues

The Act empowers the Board to establish, fix, revise, charge, collect and enforce the payment of all fees, rates, rents and other service charges for the use of, or services provided by, the System in order to receive Revenues sufficient to place the System on a self-sustaining basis and to make payments to the City pursuant to the Financing Agreement. All Revenues of the System will be deposited by the Board in the Local Water Fund established pursuant to the Act and in the custody of the Board. Under the Act, a statutory lien is created upon the Revenues in favor of the payment of all amounts due pursuant to the Financing Agreement and in the order and priority set forth in such agreement. The Act provides that such lien shall be a first lien upon the Revenues. In the event that the Board fails to make any required payment to the Authority, the Authority or the Trustee may petition

for the appointment, by any court having jurisdiction, of a receiver to administer the affairs of the Board, and, with court approval, establish rates and charges to provide Revenues sufficient to make required payments. The statutory lien, however, does not give any holder or owner of any Bond issued by the Authority power to compel the sale of any part of the System.

The City and the Board have covenanted in the Financing Agreement and Operation Agreement that the Board shall manage, operate, maintain and repair the System. Such obligation to operate and maintain the System may be enforced by the Authority in accordance with the provisions of the Act and the terms of the Financing Agreement and the Operation Agreement. Pursuant to the Operation Agreement, the City certifies to the Board on an annual basis the amounts expected to be required to operate and maintain the System. The Board pays such amounts, as described below, after receipt by the Board of an annual certificate of the Consulting Engineer or the Rate Consultant to the effect that such amounts are reasonable and appropriate.

Flow of Funds

Beginning on the first day of each month, the Board is required to transfer the Revenues in the General Account of the Local Water Fund to the Trustee for deposit in the Revenue Fund, until the amount on deposit in the Revenue Fund and the Debt Service Fund combined equals the Minimum Monthly Balance for all outstanding bonds in such month and the Trustee has additionally received amounts necessary to satisfy any Required Deposits for such month (see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Financing Agreement - Minimum Monthly Balance”). Thereafter in such month from the balance remaining in the General Account of the Local Water Fund, the Board is required, after transferring budgeted money to the Board Expense Account in the Local Water Fund to pay monthly Board Expenses, to transfer to the Operation Account in the Local Water Fund, for credit against the amount due from the Board to the City for Operating Expenses, 1/12 of the Operating Expenses for such Fiscal Year; however, the City may provide an alternative payment schedule, which must be agreed to by the Rate Consultant. After making such transfer, any amounts remaining in the General Account of the Local Water Fund in each month are paid to the Operation and Maintenance Reserve Account and the Ongoing Project Account in the Local Water Fund. For a more complete description of the required payments from the General Account of the Local Water Fund, see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Financing Agreement - Establishment of Certain Accounts and Application of Revenues in the Local Water Fund”.

Under the Resolution, all Revenues received by the Authority from the Board will be deposited promptly in the Revenue Fund. As soon as practicable in each month after the deposit of Revenues, the Trustee will, from the amounts in the Revenue Fund, make the deposits in the Funds and Accounts established under the Resolution (see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Resolution - Payments Into Certain Funds”).

Parity Obligations

The Series 2015-A Bonds will be on a parity with Bonds heretofore and hereafter issued pursuant to the Resolution and the Act and are payable from and secured by a pledge of all Revenues (except certain moneys or securities on deposit or required to be deposited in the Rebate Fund) and all other moneys and securities to be received, held or set aside pursuant to the Resolution; subject only to the provisions of the Resolution, the Act and the Financing Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein. Reimbursement Obligations created pursuant to the Resolution may only be on a parity with the Bonds to the extent that such

Reimbursement Obligations shall not exceed 25% of the principal amount of Bonds then Outstanding (see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Resolution” and “- Summary of the Financing Agreement”).

On September 15, 2005, the Resolution was amended by the Sixteenth Supplemental Resolution to allow the Authority to enter into various Qualified Swap transactions. The Resolution provides that swap payments made by the Authority are to be paid from the Subordinated Indebtedness Fund. Swap payments received by the Authority are to be paid into the Authority Revenue Fund. The Authority may calculate Debt Service and Required Deposits with respect to any Bonds that are Outstanding or proposed to be issued using the fixed interest rate on any floating-to-fixed Qualified Swap Agreement for the principal amount of Bonds equal to the notional amount set forth in such Qualified Swap Agreement, and the principal amount of such Bonds will not constitute Variable Rate Bonds for the purposes of the definition of Debt Service Reserve Fund Requirement and Sections 206 and 207 of the Resolution, but only for the period during which such Qualified Swap Agreement is in effect. The Authority also adopted an Interest Rate Swap Policy to require the Authority, its management and staff to adhere to sound financial and risk management practices when assessing the feasibility of Qualified Swap transactions.

Debt Service Reserve Fund

The Resolution establishes a Debt Service Reserve Fund and a Common Account therein. The Resolution requires that upon the issuance of each series of Bonds there shall be deposited into the Common Account (unless the Supplemental Resolution for a series of Bonds establishes a Special Account for such Series) an amount necessary to make the amount on deposit, together with any applicable Financial Guaranty, equal to the Debt Service Reserve Requirement for all Bonds Outstanding to which the Common Account relates, after giving effect to the issuance of such Bonds. The Debt Service Reserve Requirement on any date of calculation, and for any Fiscal Year, shall be an amount equal to the lesser of (i) maximum Aggregate Debt Service in the then current or any future Fiscal Year on all Bonds outstanding, (ii) 125% of average annual Aggregate Debt Service on all Bonds outstanding or (iii) 10% of the principal amount of the Bonds outstanding, as more fully described in “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Resolution”. Amounts on deposit in the Common Account will be applied, to the extent Revenues or amounts advanced on behalf of the Authority under the terms of a Credit Facility are not available pursuant to the Resolution, to pay Principal Installments and interest on Bonds. The Resolution also provides that any Supplemental Resolution providing for a Credit Facility to secure the payment of any Bonds may establish one or more “Special Accounts” in the Debt Service Reserve Fund for such payment. The Debt Service Reserve Requirement for Bonds secured by a Credit Facility may be limited to an amount not in excess of the maximum Debt Service on such Bonds in the current or any future Fiscal Year and may be satisfied in whole or in part by a Financial Guaranty.

In lieu of making cash deposits to the Debt Service Reserve Fund, the Authority may satisfy the Debt Service Reserve Requirement by depositing Financial Guaranties into the Debt Service Reserve Fund (see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Resolution”).

Rate Covenant

The Board has covenanted in the Financing Agreement to establish, fix and revise, from time to time, fees, rates, rents or other charges for the use of, or the services furnished by, the System to provide, together with any other available funds, for (i) the timely payment of debt service on the Series 2015-A Bonds, the Outstanding Bonds and the principal of and interest on any other

indebtedness of the Authority payable from Revenues, (ii) the proper operation and maintenance of the System, (iii) all other payments required for the System not otherwise provided for, and (iv) all other payments including payments to the City and debt service on City General Obligation Water Supply Serial Bonds previously issued that are required pursuant to the Financing Agreement and the Operation Agreement.

Without limiting the generality of the foregoing, the Board has covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of (i) 115% of Aggregate Debt Service payable in such Fiscal Year on all Bonds Outstanding and on any series of Bonds expected to be Outstanding during such Fiscal Year, and (ii) 100% of the Operating Expenses, Authority Expenses and Required Deposits for such Fiscal Year. A failure to generate Revenues as set forth in this paragraph shall not constitute an “event of default” under the Financing Agreement if the Board takes timely action to correct any such deficiency as described in the following paragraph. Pursuant to an amendment to the Financing Agreement dated as of August 1, 1997 the portion of accrued surplus in the Operation and Maintenance Reserve Account at the end of any Fiscal Year that exceeds ten percent (10%) of the total Annual Budget of the Board for such Fiscal Year shall be deemed to be Revenues collected for the next Fiscal Year of such Annual Budget.

The Board has covenanted in the Financing Agreement to review the adequacy of fees, rates, rents or other charges at least annually. If such annual or more frequent review, or the report of the Rate Consultant required pursuant to the Financing Agreement, indicates that the rates, fees and charges are or will be insufficient to meet the requirements of the rate covenant, the Board will promptly take the necessary action to cure or avoid any such deficiency. In addition, under the Operation Agreement, the City and the Board have agreed to cooperate with each other and pursue all actions necessary to cure or avoid any insufficiency in such rates, fees or other charges within the limits of the funding provided by the Board.

The Board has covenanted in the Financing Agreement that, except as required by law, it will not furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private, and the Board will enforce the payment of any and all amounts owing to the Board for use of the System. Notwithstanding the foregoing, the Financing Agreement provides that there shall be no charges for any use of the System by the City in pursuance of its governmental functions or for services rendered to the City in connection with such use of the System (see “RATES AND BILLING”).

It should be noted that recent policy and practice of the Board has been to establish rates at a level sufficient to increase the Revenue for the Fiscal Year so that it is at least equal to 150% of Aggregate Debt Service payable in such Fiscal Year on all Bonds Outstanding and on any series of Bonds expected to be Outstanding during such Fiscal Year and 100% of the Operating Expenses, Authority Expenses and Required Deposits for such Fiscal Year, but no assurance can be given that the Board will continue such policy and practice.

Investment of Funds

The Resolution requires that interest and other earnings on amounts on deposit in all Funds and Accounts established under the Resolution, other than the Construction Fund, the Debt Service Reserve Fund and the Rebate Fund, shall be paid into the Revenue Fund as and when received. Interest earned on monies on deposit in the Rebate Fund shall be held in the Rebate Fund until required for payment to the United States Government. Interest and other investment earnings on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Surplus Fund, and (ii) the Construction Fund shall be paid to the Board for deposit in the Local Water Fund, except that interest

on invested amounts from the Construction Fund in excess of that allowable by the Arbitrage and Use of Proceeds Certificate shall be paid directly into the Rebate Fund. Amounts so transferred to the Board constitute Revenues under the Financing Agreement and would therefore be considered, together with Revenues derived from the operation of the System, for purposes of compliance by the Board with the rate covenant described above. For a complete definition of Permitted Investments for Authority funds and further restrictions for certain funds see "APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - "Investment Securities" and "Investment of Certain Funds."

Conditions Precedent To Delivery of Bonds

The Resolution provides that the Authority may issue Additional Bonds on a parity with all Bonds Outstanding only upon satisfaction of certain requirements, including, among other things as more fully described in "APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS," receipt by the Trustee of:

(a) a certificate by an Authorized Representative of the Authority to the effect that the Revenues for either of the last two Fiscal Years immediately preceding the Fiscal Year In which such Bonds are to be issued were at least equal to the sum of (i) 115% of the Aggregate Debt Service during such Fiscal Year (excluding from Aggregate Debt Service any Principal Installments, or portion thereof, paid from a source other than Revenues), and (ii) 100% of the sum of the Operating Expenses, Authority Expenses and the Required Deposits for such Fiscal Year; provided that pursuant to an amendment to the Financing Agreement dated as of August 1, 1997 the portion of accrued surplus in the Operation and Maintenance Reserve Account at the end of any Fiscal Year that exceeds ten percent (10%) of the total Annual Budget of the Board for such Fiscal Year shall be deemed to be Revenues collected for the next Fiscal Year of such Annual Budget;

(b) a certificate of the Consulting Engineer setting forth the projected Operating Expenses and estimated Required Deposits for each of the five Fiscal Years following the issuance of such series of Bonds, plus the Fiscal Year in which such Bonds are issued;

(c) a report by the Rate Consultant as to their examination of a statement that shows that the estimated Revenues for each of the five Fiscal Years following the issuance of such series of Bonds (plus the Fiscal Year in which such Bonds are issued), after giving effect to any increases or decreases in rates, fees and charges projected for such Fiscal Years, will be at least equal to the sum of (i) 115% of the maximum estimated Aggregate Debt Service on all Bonds then Outstanding including the Bonds to be issued, and (ii) 100% of the sum of the projected Operating Expenses, Authority Expenses and Required Deposits for such Fiscal Years;

(d) a certificate of each of the respective Authorized Representatives of the Authority, the Board and City, each dated as of the date of delivery of such Bonds, stating that (i) the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution, and (ii) neither the Board nor the City is in default in the performance of any of the covenants, conditions, agreements or provisions contained In the Financing Agreement; and

(e) one or more Series of Refunding Bonds may be issued pursuant to the Resolution at any time to refund any Outstanding Bonds, provided that (i) average annual Debt Service on such Series of Refunding Bonds shall not exceed the average annual Debt Service on the Bonds to be refunded and (ii) the maximum Debt Service in any Fiscal Year on such series of Refunding Bonds shall not exceed the maximum Debt Service in any Fiscal Year on the Bonds to be refunded, all as

shown in a Certificate signed by an Authorized Representative of the Authority and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the funds and Accounts required by the provisions of the Supplemental Resolution authorizing such Bonds. All Refunding Bonds of a Series issued under the Resolution shall be executed by the Authority for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of: (w) irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be redeemed on a redemption date or dates specified in such instructions; (x) if the Bonds to be refunded are not to be redeemed within the next succeeding sixty (60) days, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of any refunding of such Bonds on a specified date prior to their maturity, as provided in the Resolution; (y) either (1) moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued) in an amount sufficient to effect payment of the Principal Installments and the applicable Redemption Price, if any, of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date thereof, as the case may be, or (2) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply with the provisions of the Resolution, which Defeasance Obligations and moneys shall be held in trust and used only as provided in the Resolution; and (z) such further documents and moneys as are required by Resolution and any Supplemental Resolution.

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DEBT SERVICE REQUIREMENTS

The following schedule sets forth the Aggregate Debt Service requirements for the current Outstanding Bonds, the Series 2015-A Bonds and the aggregate annual debt service requirements outstanding after the issuance of the Series 2015-A Bonds.

Fiscal Year Ending June 30	Outstanding Bonds Total Debt Service ⁽¹⁾	Less Refunded Debt Service ⁽¹⁾	2015-A Principal	2015-A Interest	2015-A Debt Service	Aggregate Annual Debt Service
2015	\$ 14,255,637.18	\$ -	\$ -	\$ -	\$ -	\$ 14,255,637.18
2016	14,272,509.07	3,898,107.66	-	1,295,666.67	1,295,666.67	11,670,068.08
2017	14,180,457.33	3,928,515.03	1,660,000.00	2,225,900.00	3,885,900.00	14,137,842.30
2018	14,192,442.54	3,863,954.53	1,650,000.00	2,168,050.00	3,818,050.00	14,146,538.01
2019	14,162,392.69	4,254,787.29	1,880,000.00	2,079,800.00	3,959,800.00	13,867,405.40
2020	10,684,423.65	4,259,954.29	1,585,000.00	1,993,175.00	3,578,175.00	10,002,644.36
2021	10,703,005.90	5,031,035.73	3,100,000.00	1,876,050.00	4,976,050.00	10,648,020.17
2022	10,313,307.47	5,078,583.63	3,300,000.00	1,716,050.00	5,016,050.00	10,250,773.84
2023	10,258,616.06	4,465,917.02	2,830,000.00	1,576,950.00	4,406,950.00	10,199,649.04
2024	10,291,723.14	4,448,209.13	2,940,000.00	1,446,850.00	4,386,850.00	10,230,364.01
2025	10,238,524.42	4,519,701.86	3,165,000.00	1,294,225.00	4,459,225.00	10,178,047.56
2026	10,226,308.99	4,492,738.84	3,300,000.00	1,132,600.00	4,432,600.00	10,166,170.15
2027	10,297,096.38	4,537,327.62	3,515,000.00	962,225.00	4,477,225.00	10,236,993.76
2028	9,023,355.82	5,332,790.89	4,510,000.00	761,600.00	5,271,600.00	8,962,164.93
2029	9,038,129.23	5,324,339.50	4,735,000.00	530,475.00	5,265,475.00	8,979,264.73
2030	4,561,662.96	5,365,484.71	5,015,000.00	286,725.00	5,301,725.00	4,497,903.25
2031	4,327,085.89	905,622.21	700,000.00	143,850.00	843,850.00	4,265,313.68
2032	4,293,418.45	930,886.99	760,000.00	107,350.00	867,350.00	4,229,881.46
2033	3,844,923.51	924,861.06	795,000.00	68,475.00	863,475.00	3,783,537.45
2034	3,809,733.83	499,194.98	395,000.00	40,700.00	435,700.00	3,746,238.85
2035	3,787,257.38	487,171.68	400,000.00	24,800.00	424,800.00	3,724,885.70
2036	3,266,681.53	494,027.25	420,000.00	8,400.00	428,400.00	3,201,054.28
2037	3,238,286.50	-	-	-	-	3,238,286.50
2038	2,440,653.63	-	-	-	-	2,440,653.63
2039	2,409,339.16	-	-	-	-	2,409,339.16
2040	2,377,592.48	-	-	-	-	2,377,592.48
2041	945,000.00	-	-	-	-	945,000.00
2042	948,600.00	-	-	-	-	948,600.00
Total	<u>\$212,388,165.19</u>	<u>\$ 73,043,211.90</u>	<u>\$ 46,655,000</u>	<u>\$ 21,739,916.67</u>	<u>\$68,394,916.67</u>	<u>\$207,739,869.96</u>

Totals may not add due to rounding.

⁽¹⁾ Assumes interest at a rate of 3.70% per annum based on the Swap Agreement for the Hedged Series 2008-A Bonds, and interest at the rate of 5.07% per annum for the unhedged portion of the Series 2008-A Bonds.

Source: City of Buffalo Division of Audit and Control.

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THE AUTHORITY

Purpose and Powers

The Authority is a public benefit corporation created pursuant to the Authority Act. Among its powers under the Act, the Authority may borrow money and issue negotiable or non-negotiable notes, bonds or other obligations including the Series 2015-A Bonds and provide for the rights of the holders thereof. Additionally, the Authority has the power to enter into the Financing Agreement, whereby the Board is required to charge and collect sufficient rates to pay the costs of operating and financing the System and to enforce the obligation of the City to adequately operate and maintain the System.

Pursuant to the Act, there is a statutory lien upon the Revenues (except certain moneys or securities on deposit or required to be deposited in the Rebate Fund) in favor of the payment of all amounts due to the Authority under the Financing Agreement. The Revenues will remain subject to this lien until provision for payment of all indebtedness issued by the Authority has been made.

Membership

The Authority is administered by the Board of Directors consisting of seven members. Four of the members of the Board are designated in the Act as ex-officio members: the State Commissioner of Environmental Conservation, the City Commissioner of Administration and Finance, the City Commissioner of Public Works and the Chairman of the City Common Council's Finance Committee. Of the three remaining public members, two are appointed by the Mayor and subject to confirmation by the City Common Council and one is appointed by the Governor. Ex-officio members may designate a deputy to perform their respective duties. Pursuant to the Act, the Comptroller of the City is the Chief Fiscal Officer of the Authority. There are currently three vacancies on the Board of Directors. The current members of the Authority are:

<u>MEMBER</u>	<u>OCCUPATION</u>	<u>TERM EXPIRES</u>
[Vacant], Chair*	Commissioner, Public Works City of Buffalo	ex-officio
Hon. Richard A. Fontana	Lovejoy District Council Member	ex-officio
Abby Snyder	Director of Regional Office, Dept. of Environmental Conservation State of New York	ex-officio
Donna J. Estrich*	Commissioner, Administration, Finance, Policy and Urban Affairs City of Buffalo	ex-officio

* Commissioner Stepniak served in the above capacity until the end of business on May 20, 2015. The Authority bylaws authorize the Deputy Chair to act on behalf of the Authority in the absence of the Commissioner.

THE BOARD

Purpose and Powers

The Board is a corporate municipal instrumentality of the State created by the Board Act. Among the Board's powers pursuant to the Act, the Board is empowered to acquire from the City title to the System, to establish, fix, revise, charge, collect and enforce the payment of all fees, rates, rents and other service charges for the use of or services furnished by the System.

The Board is required under the Act and the Financing Agreement to establish rates that will provide adequate funds to pay the debt service on outstanding Authority indebtedness and amounts to be paid by the Board to the City under the Operation Agreement. Any surplus of funds remaining after these and certain other payments are made will be deposited in the Operation and Maintenance Reserve Account. For a detailed description of the application of such funds, see "APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Financing Agreement."

Pursuant to the Operation Agreement amendment dated as of August 1, 1997, the Board is responsible for the management, operation, maintenance and repair of the System. The operation of the System may include the engagement of independent contractors for the fulfillment of the Board's duties and obligations with respect to the System. The Board has contracted with Veolia, an independent contractor, to manage the System pursuant to the Management Agreement. Furthermore, the Board has agreed to use the services of the employees of the City of Buffalo, Division of Water to operate, maintain, repair and improve the System as provided for in the aforementioned Management Agreement (see "RATES AND BILLING - Billing and Collection").

Membership

The Board consists of seven members who are appointed by the Mayor and subject to confirmation by the City Common Council. At least one member shall have experience in the science of water resource development. Any member who is an officer of the City may designate another City officer to perform their respective duties. There are currently three vacancies on the Board. The Mayor appoints the Chair of the Board.

The current members of the Board are:

<u>MEMBER</u>	<u>OCCUPATION</u>	<u>TERM EXPIRES</u>
Oluwole A. McFoy, Chair	Principal Sanitary Engineer Buffalo Sewer Authority	Pleasure of Board
Gerald E. Kelly	President, Kelly Capital Inc.	Pleasure of Board
William L. Sunderlin	Director of Purchase, City of Buffalo	Pleasure of Board
Michael J. Finn	City Engineer City of Buffalo	Pleasure of Board

Management of the System

On April 14, 2010, the Board approved a contract with Veolia Water North America-Northeast, LLC (“Veolia”) for the management of the System. The agreement executed with Veolia has a term of ten (10) years commencing July 1, 2010. Furthermore, the Board has agreed to use the services of the employees of the City of Buffalo, Division of Water to operate, maintain, repair and improve the System as provided for in the Management Agreement with Veolia. The relationship created between Veolia and the Board is one for professional and technical services by Veolia as an independent contractor. The Management Agreement grants Veolia limited authority as the representative of the Board in carrying out its obligations, and neither the Board nor Veolia is an agent, employee or joint venturer with the other, the City or the Authority. In accordance with the provisions of the Management Agreement, Veolia is to manage the City employees in a manner that is expected to achieve certain efficiencies and provide certain benefits to the Board. The Management Agreement obligates the Board to pay Veolia an annual fee, currently equal to \$5,522,758 for Fiscal Year 2014-2015, payable in monthly installments, during the ten-year term of the Management Agreement. This fee is subject to annual increases, as of July 1, in accordance with increases in the Producer Price Index for Water Industry Chemicals, the Employment Cost Index, the Producer Price Index for Industrial and Commercial Machinery and Equipment, and the CPIU Class B/C for Buffalo throughout the ten-year term.

In accordance with the Act and the Management Agreement, the Board has used the services of the City employees assigned to the Division of Water to perform the duties associated with the operation, maintenance, repair and improvement of the System. The employees remain as City employees subject to the rights and duties imposed by their collective bargaining agreements with the City and will not be subject to layoff during the ten-year term. The City bills the Board for the compensation costs (salaries and fringe benefits) of the employees assigned to work on the System. (See “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Management Agreement”).

Economic and Demographic Data

The service area served by the Board consists primarily of the City of Buffalo. For additional information regarding that portion of the service area that is within the boundaries of the City, see “APPENDIX D - CERTAIN INFORMATION CONCERNING THE CITY OF BUFFALO.” The Authority has provided the information set forth in APPENDIX D solely for reference and has no obligation to update such information pursuant to the secondary market disclosure obligations described under the caption “CONTINUING DISCLOSURE OBLIGATIONS” herein.

THE SYSTEM

Set forth below is a summary description of the System and its physical facilities. For more information regarding the System, see “APPENDIX B - ENGINEERING REPORT - 2015 EVALUATION OF THE BUFFALO WATER SYSTEM.”

Service Area and Interconnections. The Board supplies water to the City of Buffalo, which, according to the United States Census of 2010, had a population of 261,310. Water service is provided to approximately 72,700 active accounts. In addition to supplying water to residents and businesses located in the City, the System also supplies treated water to businesses bordering the City limits and several residential accounts in Cheektowaga, West Seneca and Lackawanna. The distribution system is interconnected with both the Erie County Water Authority (the “ECWA”) and the Town of Tonawanda water distribution systems. There are fifteen total interconnections but only thirteen are

currently operable. Two interconnections have been used recently to supplement supply during various watermain improvement projects. Another interconnection has recently been active during the summer months for water sales to the ECWA and expected to provide additional revenues on a periodic basis. In addition, the interconnections may provide some partial supply to the System in an emergency.

The average daily water production by the Board for the last three years has been approximately 63.2 mgd.

Water Supply. The City's water source is Lake Erie at the mouth of the Niagara River.

The City of Buffalo's water supply and distribution system includes one active water intake. The Emerald Channel Intake, constructed in 1913, is located in Lake Erie approximately 6,600 feet offshore. The lake is about 30 feet deep at this point and the raw water is of good quality. In the Spring of 2001, the City completed upgrades to the intake structure, including roof replacement, architectural modifications, landing dock repairs, door and window replacement and modifications to the walkway system.

The Bird Island Intake, which was constructed in 1876, is located approximately three miles downstream from the Emerald Channel Intake in the Niagara River. This Intake has not been used since 1963 due to ice wear and damage. Due to its poor condition, the Bird Island Intake is currently out of service and would only be used in an emergency.

Water Treatment. The water supplied from Lake Erie is delivered to the Water Treatment Plant (the "Plant") entirely by gravity through a tunnel which has a height of 12 feet and a width of 12 feet. The supply tunnel is approximately 6,600 feet long. Water is carried to the Plant by the conduit passing through a screen house. The Plant, built in 1926, is a flocculation sedimentation facility with rapid sand filters. The Plant presently consists of a low lift pump room with six pumps having a total rated pumping capacity of 315 mgd, one 10 mg settling basin, 40 filters and a 30 mg final clearwell. The chemically treated raw water is pumped up into the settling basin and then through filters to the clearwell. The filtered chemically treated water then moves by gravity to the Colonel Ward Pumping Station via two underground water conduits: a concrete tunnel, which has an approximate height of 12 feet and an approximate width of 12 feet, and a 90-inch concrete pipe constructed in the early 1990s.

Several major capital upgrades have been completed recently or are currently underway at the Plant. The implementation of these improvements and continued maintenance will extend the useful life of the treatment facilities beyond 30 years and will meet the current and anticipated regulatory requirements.

Water Transmission. The Colonel Ward Pumping Station was put into service in 1915. It has three 50 mgd centrifugal pumps that were installed in 1938 and completely reconditioned in 1998. Further pumping improvements were completed in recent years including the addition of two 20 mgd pumps in 2014, with a third 20 mgd pump scheduled to be installed in 2016

The treated water flows by gravity to the Massachusetts Avenue Pumping Station in an 8 foot by 9 foot concrete tunnel, which is approximately 4,400 feet long. The Massachusetts Avenue Pumping Station has one 50 mgd, two 30 mgd and one 18 mgd pumps. In recent years the 50 mgd and 30 mgd pumps were completely rebuilt and rehabilitated.

The Colonel Ward and Massachusetts Pumping Stations are each alone capable of meeting the System's current average daily demand.

Water Storage & Elevated Tanks. The System has four active storage tanks, also used for pressure control, located throughout the City of Buffalo. In addition, the System contains clearwell storage of 30,000,000 gallons at the Plant. The Manhattan Tank, constructed in 1968, is a 5,000,000 gallon ground level storage tank in the northeast section of the City. Also, there is a booster pump station at Manhattan Tank, which houses three 3,500 gpm pumps. This station is used to boost daytime pressures in the northeast section of Buffalo. This facility is the main source of supply to the Grover Cleveland Tank. Improvements to the Manhattan Pump Station and Tank are scheduled in the CIP.

The Grover Cleveland Tank and Pump Station, constructed in 1912, consist of a 250,000 gallon steel tank and four booster pumps. This tank is located in the northeast section and is used to increase pressure in that area. Improvements to the Grover Cleveland Tank and Pump Station are included in the CIP.

The Kensington Tank was constructed in 1909 and is a 789,500 gallon steel tank enclosed in a brick building. It is located in the northeast section of the City. In 2014, due to its condition, the Kensington Tank was taken offline after consultation and concurrence from the Erie County Department of Health (“ECDOH”). A comprehensive hydraulic analysis and field evaluation were completed that demonstrated minimal impact due to this operational change. An ongoing hydraulic evaluation is currently evaluating the need for additional storage in the System.

The Hancock Tank, constructed in 1938, is an elevated 2,000,000 gallon tank located in the south section of Buffalo. This tank acts to support distribution pressure in the surrounding area.

The Ferry Tank, located in the east section of Buffalo, is an elevated 2,000,000 gallon tank and supports the distribution system pressure in the central part of the City. Water flows in and out of the tank by gravity. Improvements to the Hancock and Ferry Tanks are included in the CIP.

Water Transmissions & Distribution System. The distribution system consists of approximately 785 miles of pipe, 12,120 valves and 7,400 fire hydrants. The major transmission system consists of 36 inch, 48 inch and 60 inch feeder mains, which are constructed to form major supply loops around the City and directly supply the water storage facilities. The minor transmission system consisting of 16 inch, 20 inch, and 24 inch mains forms an intermediate system of supply within and around the major transmission system. The distribution system consists of all remaining watermains that range in size from 4 inches to 12 inches in diameter.

The function of the distribution system is to deliver treated water, under pressure, to all properties within the City so that individual service taps can be made directly along these pipelines. These mains have fire hydrants installed at intervals and constitute the sole source of water to fight fires.

Engineering evaluations have cited that the majority of the System’s waterlines and appurtenances have experienced serious reduction in hydraulic capacity due to tuberculation and leaks. To restore system capacity, the tuberculated lines must either be cleaned and lined or replaced and the leaking lines must be repaired if economically practical, or replaced. Since the Distribution System Rehabilitation Program began after the first bond issue, many improvements have been performed (*i.e.*, leaks have been repaired, and outdated pipes have been replaced, cleaned and/or lined) and the CIP includes ongoing future improvements.

In conjunction with the Distribution System Rehabilitation Program, the City has completed approximately 87% of a Meter Installation Program. The goal of the program is to have all properties served by the distribution system metered. This will ultimately give better information of how water is used and may decrease water demand. In addition, the City has recently completed an unaccounted for

water study to identify and quantify water usage in the City and develop options to increase revenue and decrease water loss.

Division of Water. The Division of Water is a division of the Public Works Department of the City and headed by the Commissioner of Public Works. The Division is staffed by five employees. Division of Waters responsibilities include: the design and construction of capital improvement projects; operational review, personnel, hiring records and payrolls; preparation of fiscal reports for the Comptroller's Office, the Budget Office and the Buffalo Sewer Authority; and the preparation of Water Division budgets. All purchases and payments and all engineering and construction contracts are processed through this Division.

Veolia Water North America -- Northeast, LLC. Beginning July 1, 2010, the Board contracted with Veolia to manage the day-to-day operation of the Water System and to manage all functions of the System not managed by the Division of Water. The Board retained the privately held company to reduce operating costs and to improve System efficiencies. The Management Agreement has a ten-year term.

The Administration Office is currently staffed with approximately 15 employees, who serve under the supervision of Veolia. This office processes billing data and maintains all information on approximately 72,700 active water customer accounts. The Administration Office services the customers' accounts, issues water and sewer bills, processes the bill payments, reads the meters for billings, prepares new meter applications, distributes meters and bills all miscellaneous charges for work performed by both the Meter and the Distribution Departments. In addition, this office administers all Bankruptcy Accounts and manages the collection of all arrears owed to the Division of Water as part of the Turn-Off Program.

The Inspection Office is staffed with approximately 6 employees. This office performs meter readings, inspections on Flat Rate properties for billing and for compliance with the Division of Water Ordinances, investigates causes for high or low readings on water meters, notifies owners of service leaks, inspects all repairs to water service lines made by plumbers and verifies water service line installations on construction projects.

The Distribution System Section for the Division of Water maintains and makes repairs to all water mains and hydrants in the System. Current staff includes a Superintendent, 2 Assistant Superintendents and approximately 42 permanent employees. This section is also responsible for making all water service connections for plumbers, inspecting service box installations, performing water turn-offs, investigating all leaks in the System, investigating complaints of leaks on water services, maintaining hydrants and street valves, operating valves and making connections to live mains on construction projects, terminating water services for demolition, posting notices for the Water Turn-Off Program, shutting water off for non-payment and doing turn-ons when accounts are paid.

The Meter Section is responsible for installation, repair and rehabilitation of meters in the System. This section maintains a preventative maintenance program to prevent water loss in the System. The replacement of obsolete meters and repair of larger meters insures that proper water revenue is maintained. At present, there are approximately 8 employees.

The Pumping Section has the responsibility for pumping treated water into the distribution system. This section operates the System's Pumping Stations and Storage Tanks located throughout the City. There are approximately 12 employees in this section.

There is also a Mechanical Section, which maintains and repairs all boilers, pumps and motors. This section is also responsible for maintaining and repairing the Colonel Ward Complex, the Towers,

Tanks and other Water buildings. At present, there is a Pumping Plant Superintendent and a staff of approximately 2.

Current staff include 1 chemist and approximately 7 other employees at the Filtration Plant. The responsibility of the Filtration Plant is to filter and treat raw water with chemicals and deliver quality water to be pumped to the distribution system. It also maintains a testing laboratory and controls processes in order to meet the standards set by the State and County Health Laws as well as the Federal Safe Drinking Water Act.

Approved Capital Improvement Plan

On April 8, 2015, the Board approved the CIP for the System, as shown on the following table:

PROJECT CATEGORY	PROJECT NO.	PROJECT NAME	Fiscal Year - Estimated Project Costs					
			2014-2015	2015-2016	2016 - 2017	2017 - 2018	2018-2019	2019-2020
Colonel Ward Treatment and Pumping	1	Filter Plant Structural Walls		\$1,000				
	2	Filter Plant Treatment Optimization		\$100	\$100			
	3	Filter Plant Lagoon Rehabilitation		\$300	\$1,000			
	4	Filter Plant Sedimentation Basin Improvements			\$500			
	5	Filter Plant Filter Media Replacement		\$500				
	6	Filter Plant Laboratory Improvements			\$500			
	7	Filter Plant Backwash Sewer	\$2,500					
	8	Filter Plant Fluoride System / Chlorine Scrubber System	\$1,200					
	9	Filter Plant Miscellaneous Improvements*				\$250	\$250	\$250
	10	Colonel Ward Valve House Rehabilitation		\$200	\$1,000			
	11	Colonel Ward New High Service Pumps - Phase 2	\$6,500					
	12	Colonel Ward Pumping Optimization			\$500			
	13	Colonel Ward Power Upgrades			\$200	\$1,500		
	14	Colonel Ward Miscellaneous Improvements*				\$250	\$250	\$250
System Pumping and Storage	15	Massachusetts Ave. Pump One Rehab.			\$500			
	16	Massachusetts Ave. P.S. Power Upgrades		\$200	\$1,500			
	17	Massachusetts Ave. Tunnel Rehab.					\$500	
	18	Massachusetts Ave. Sump Rehabilitation			\$100			
	19	Massachusetts Ave. P.S. Miscellaneous Improvements*				\$250	\$250	\$250
	20	Manhattan P.S. Rehabilitation	\$1,300		\$300	\$500		
	21	Manhattan Tank Rehabilitation					\$100	\$1,500
	22	Manhattan Tank & P.S. Misc. Improvements*				\$250	\$250	\$250
	23	Grover Cleveland Tank & P.S. Rehabilitation				\$100	\$1,200	
	24	Grover Cleveland Tank & P.S. Misc. Improvements*					\$250	\$250
	25	Hancock Tank Rehabilitation			\$200	\$1,500		
	26	Ferry Tank Rehabilitation				\$200	\$1,500	
	27	New System Storage Tank		\$250	\$4,000			
28	New Tank & P.S. for New Pressure Zone***				\$1,000	\$4,000		
29	System Disinfection Booster Station				\$750			
30	Existing Tank Inspection & Evaluation Program		\$250					
Transmission & Distribution	31	New Pressure Zone Infrastructure Improvements***					\$1,000	\$4,000
	32	Annual Water Main / Valve Replacement / Rehabilitation	\$3,200	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Buildings & Other	33	Metering Program	\$60	\$500	\$250	\$250	\$250	\$250
	34	System Security	\$650		\$250	\$250	\$250	\$250
	35	Intake Rehabilitation						\$500
	36	Miscellaneous Improvements*						
	37	Building Improvements**	\$500	\$1,000	\$500	\$500	\$500	\$500
Estimated Total Annual Capital Project Costs:			\$15,910	\$8,300	\$15,400	\$11,550	\$14,550	\$12,250
Anticipated CIP Funding	Source of Funds							
	Unexpended Bond Proceeds		\$8,947					
	Anticipated O&M Reserve Utilization (pay-go)		\$6,963	\$8,300	\$2,000	\$1,000	\$2,000	\$2,000
	Anticipated Future Revenue Bonds				13,400	10,550	12,550	10,250
	Total Project Funding:			\$15,910	\$8,300	\$15,400	\$11,550	\$14,550

Notes:

* This item includes miscellaneous funds to be used to perform additional upgrades in the treatment, pumping, storage, transmission and other systems as required.

** This item includes funds to be used to perform improvements to the buildings including structural beams, walls, floors, windows, roofs and other items as required.

*** This item includes initial projected costs for construction of a new pressure zone. Engineering study currently underway that will determine final requirements and costs.

New York State Environmental Facilities Corporation

The New York State Environmental Facilities Corporation (“EFC”) is a public benefit corporation of the State created by State legislation enacted in 1970. EFC administers the State’s revolving fund program, authorized by Federal legislation known as the Safe Drinking Water Act of 1996, to provide financial assistance to local governments and public authorities for community water systems. This State program accepts Federal grants and State matching funds, which are used to reduce borrowing costs for the Authority and other public entities by providing interest subsidies and reserves. The Authority has previously borrowed through this program in, 2002, 2003 and 2006, and the outstanding amount of long-term principal on bonds issued through this program is \$17,675,000. The bonds were issued on a parity basis.

To the extent that it appears cost effective the Authority anticipates continuing to explore the use of the program in future years to finance future projects to the greatest extent allowable under applicable Federal and State law. Such future participation may involve the issuance of parity bonds.

EFC is currently considering refinancing a portion of the Authority’s outstanding indebtedness.

ENGINEERING REPORT

CRA Infrastructure & Engineering, Inc., the Authority's Consulting Engineer, has found all major elements of the System to be in generally “Sufficient” condition. The quality of the City's treated water has consistently complied with regulatory standards. The Consulting Engineer has also concluded that with the implementation of the CIP and continued maintenance and service to the facilities, the expected life of the System should exceed 30 years. The Engineer's Report included in APPENDIX B is in the form that was approved by the Authority for inclusion in this Official Statement.

GOVERNMENTAL REGULATION

Water produced by the Board is subject to the requirements of a number of state and federal regulations, including the Federal Safe Drinking Water Act (“SDWA”) and sub-part 5 of the New York Sanitary Code. The SDWA established National Primary Drinking Water Regulations (“NPDWR’s”), which cover contaminants with adverse effects on human health. NPDWR’s are enforceable by the United States Environmental Protection Agency (“USEPA”). The SDWA also developed Secondary Drinking Water Standards (“SDWS’s”) that cover contaminants that adversely affect the aesthetic quality of drinking water, such as taste, odor, and appearance. These are guidelines that are not enforceable by USEPA. Primacy for the enforcement of most Federal Regulations is granted to the New York State Department of Health (“NYSDOH”) which is supported by Local Health Units such as the Erie County Department of Health (“ECDOH”).

The Board draws numerous daily samples for laboratory testing in accordance with regulations, and reports the results on a monthly basis to the City and the ECDOH. These monthly reports indicate that System water consistently complies with the NPDWR’s and the SDWS’s.

The regulations include the Total Coliform Rule (TCR), Surface Water Treatment Rule (SWTR), Interim Enhanced and Long Term 2 Surface Water Treatment Rule (“IESWTR”), Disinfectant and Disinfection By-Products Rule (“D/DBPR”) and Stage 2 D/DBPR.

Both Federal and State Regulation require that public water systems inform their consumers annually about the constituents of their drinking water. The Board issues an Annual Water Quality Report to achieve compliance with this requirement.

The System is currently meeting the requirements of applicable regulations and based on CRA's review of available data and Division of Water reports, the System can meet the anticipated new regulatory requirements for the foreseeable future. For a complete description of compliance by the System see "APPENDIX B - ENGINEERING REPORT - 2015 EVALUATION OF THE BUFFALO WATER SYSTEM."

RATES AND BILLING

The System has approximately 72,700 active water accounts. The System's rates, fees and charges are established by the Board. Pursuant to the Act, neither the New York State Public Service Commission, nor any City or other State agency, shall have any jurisdiction over the Board or any power over the regulation of the fees, rates, rents or other charges established, fixed or revised by the Board, except as provided by law with respect to the supply of water services to users outside the City.

Rates

There are approximately 63,100 active meter accounts. Metered rates are applicable to all commercial and most residential customers. Some commercial meters are read and billed monthly while all residential meters are read and billed quarterly. Data compiled from meter readings obtained from the meter readers and the Meter Section is used for billing and leak detection. The Board received approximately 87% of its total water rate cash collections from the sale of water to metered accounts during the year ending June 30, 2014.

Since 1976, the Division of Water has required that all new construction be metered. In May 1998, the Division of Water began a Meter Program to change existing meters and install meters on all services. The goal of the program is to have all properties served by the distribution system metered.

The System provides both volume discounts and senior citizen discounts to metered accounts. As of July 1, 2014, on a quarterly basis the first 9,999 cubic feet of water usage is billed at \$22.83 per 1,000 cubic feet, usage between 10,000 and 36,000 cubic feet is billed at \$21.36 per 1,000 cubic feet and water usage over 36,000 cubic feet is billed at \$16.31 per 1,000 cubic feet of usage. Senior citizens that meet certain income requirements may qualify for a discounted meter rate, which is approximately 60% of regular meter rates. The Board uses a rate structure that calls for a capacity charge plus an actual usage charge.

There are approximately 9,600 active flat rate accounts (unmetered accounts). Flat rate charges are imposed for residential customers and are based on characteristics of the user's property, amenities and connections. Flat rate accounts are billed on a quarterly basis. Billing data is obtained from inspections made by Water Service Inspectors. Senior citizens that meet certain income requirements may qualify for a discounted flat rate, which is approximately 60% of regular flat rates. The Board received approximately 13% of its total water rate cash collections, from the sale of water to flat rate accounts during the year ending June 30, 2014.

Other than the City of Buffalo, the System does not exempt any institutions or governmental entities from payments of water charges.

After a review of rates charged by other municipalities in the region, it has been determined the above described rates currently in place are generally comparable to rates charged by such other municipalities.

The following table sets forth the changes in water rates, both metered and flat rate, over the last 5 years:

Starting Date of Rate Increase	Approximate % Change
July 1, 2010	6.5%
July 1, 2011	6.5%
July 1, 2012	6.0%
July 1, 2013	No change
July 1, 2014	No change

Source: City of Buffalo, Division of Water

It is anticipated that the current rates coupled with anticipated future rate increases, as described in the Rate Consultant’s Report (see “APPENDIX C - RATE CONSULTANT’S REPORT”), will enable the Board to meet the rate covenant required by the Financing Agreement. Even with these anticipated increases, the rates will be comparable to rates charged by other municipalities in the region.

Billing and Collection

Pursuant to the Operation Agreement, the billing office managed by Veolia is responsible for all data on customer accounts, processing payments and collection of arrears on customer accounts.

The Administration Office includes approximately 15 staff members responsible for activities associated with the accurate release of bills, responding to customer queries via telephone, in writing and in person, adjusting bills where appropriate, receiving and processing meter readings and producing system reports relating to the billing and collection process. Collection activities include the timely release of “reminders”, the processing and monitoring of payments, and other activities, including but not limited to bankruptcies, foreclosures, disconnections and customer payment plans.

Delinquent water accounts are assessed a 4.5% penalty for the first thirty (30) days they are past due and 1.5% for each 30 days thereafter. If the account remains delinquent after three billing quarters, the collection section incorporates the account into its Turn-Off Program.

The Management Agreement calls for the Manager to collect all accounts, including past due accounts.

The following tables show the recent trend of water billings for both flat rate and meter rate accounts, total collections (including collection of arrears) and percent of total collections to current billings, all as of June 30 of the Fiscal Year indicated. The difference in collection rates between flat rate accounts and metered accounts is due to the clients served in each group. Metered accounts include all commercial and industrial customers and the majority of residential customers. Flat rate accounts are composed of remaining residential accounts only. In general, commercial and industrial accounts tend to have larger dollar values compared to residential accounts. Collecting one large industrial account has a greater effect on the overall collection rate than collecting a residential account. The smaller number of commercial and industrial accounts makes it easier to track and collect overdue payments.

TABLES OF WATER COLLECTIONS

FLAT RATE ACCOUNTS

Year Ending June 30	Water Billing	Total Collections	Percent of Total Collections of Total Current Billing
2010	\$4,005,810	\$4,317,502	107.8%
2011	4,285,549	4,366,562	101.9
2012	4,645,749	4,238,228	91.2
2013	4,823,640	4,906,826	101.7
2014	4,870,453	4,669,594	95.9

METER RATE ACCOUNTS

Year Ending June 30	Water Billing	Total Collections	Percent of Total Collections of Total Current Billing
2010	\$28,270,688	\$27,852,336	98.5%
2011	31,089,984	31,056,776	99.9
2012	34,016,944	33,959,144	99.8
2013	36,143,865	34,995,683	96.8
2014	36,737,463	35,954,695	97.9

ALL ACCOUNTS

Year Ending June 30	Water Billing	Total Collections	Percent of Total Collections of Total Current Billing
2010	\$32,276,498	\$32,169,838	99.7%
2011	35,375,533	35,423,338	100.1
2012	38,662,693	38,197,372	98.8
2013	40,967,505	39,902,509	97.4
2014	41,607,916	40,624,289	97.6

Source: Veolia Water, North America

The following table lists the ten largest System customer accounts based on water billings for the annual billing cycle ended June 30, 2014.

Ten Largest Customer Accounts

<u>Customer</u>	<u>Revenue</u>
Aurubis Buffalo, Inc.	\$959,957
Buffalo Municipal Housing Authority	654,602
Buffalo Sewer Authority	564,925
Erie County Medical Center	445,461
Roswell Park Cancer Institute	389,738
Sorrento Lactalis, Inc.	388,203
Tyson Foods *	310,733
Buffalo State College	222,701
VA Financial Services Center	206,301
Erie County Water Authority	<u>153,418</u>
 TOTAL	 <u><u>\$4,296,301</u></u>

Source: Veolia Water, North America

* On January 3, 2015 Tyson Foods closed its Buffalo plant. The facility is currently for sale.

Revenues from these customers accounted for approximately 10% of total water billings for the period ending June 30, 2014.

Pursuant to the Financing Agreement and the Operating Agreement, the City is not charged for use of the System for governmental purposes in exchange for providing certain services to the Board. (See “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Operation Agreement”).

FINANCIAL OPERATIONS

The following table entitled “Comparative Schedule of Revenues, Expenses and Transfers” presents a summary of water operations for Fiscal Years 2010 through 2014, prepared in accordance with generally accepted accounting principles (“GAAP”). The table has been derived from the books and records of the City, the Board and the Authority.

The table shows the Water Enterprise Fund, which operates on a self-supporting basis. It accounts for the construction, financing, operation and maintenance of the water supply and distribution system under the jurisdiction of the Department of Public Works and its Division of Water. The Division's expenditures are governed by budgets and ordinances adopted by the Common Council. Principal revenues derive from the sale of water to consumers.

Because the Water Enterprise Fund is accounted for on an accrual basis, in accordance with GAAP, the table accounts for cash expenses and all accrued non-cash expenses such as depreciation and other post-employment benefits. As required by the Board's Rate Covenant, debt service coverage is determined solely on a cash basis. The table set forth below entitled “CITY OF

BUFFALO WATER BOARD ACTUAL DEBT SERVICE COVERAGE” computes the reported debt service coverage ratio by showing actual cash revenues and disbursements.

Management's Discussion of Financial Operations

The Board completed its fiscal year ended June 30, 2014 with a net position of \$46.5 million, which compares to \$39.2 million for the fiscal year ended June 30, 2013. The \$7.3 million increase reflects an increase in revenues and a slight decrease in total expenses. Services and supplies expenses increased \$0.8 million or 8.8%, primarily due to an increase in engineering/technical services and utilities. Interest expense decreased \$0.3 million dollars or 4.7%, because of the lower balance of outstanding debt. Other expenses decreased \$0.6 million or 63.1%, primarily as a result of decreased water meter purchases.

Water System¹ Comparative Schedule of Revenues, Expenses and Transfers Fiscal Years Ended June 30, 2010 through June 30, 2014 (000's Omitted)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operating revenues:					
Charges for services	\$ 35,261	\$ 36,685	\$ 40,213	\$ 44,045	\$ 44,162
Other	<u>458</u>	<u>258</u>	<u>111</u>	<u>90</u>	<u>251</u>
Total operating revenues	<u>35,719</u>	<u>36,943</u>	<u>40,324</u>	<u>44,135</u>	<u>44,413</u>
Operating expenses:					
Services and supplies	16,494	14,995	14,880	14,463	15,077
Fringe benefits	4,819	5,427	5,864	5,609	5,752
Depreciation	3,982	4,165	4,373	4,851	4,949
Other	<u>934</u>	<u>852</u>	<u>54</u>	<u>929</u>	<u>396</u>
Total operating expenses	<u>26,229</u>	<u>25,439</u>	<u>25,171</u>	<u>25,852</u>	<u>26,174</u>
Operating income	<u>9,490</u>	<u>11,504</u>	<u>15,153</u>	<u>18,283</u>	<u>18,239</u>
Nonoperating revenues (expenses)					
Interest earnings	362	399	428	272	206
Interest expenses	(5,801)	(7,074)	(6,726)	(7,093)	(6,759)
Other	<u>-</u>	<u>241</u>	<u>478</u>	<u>696</u>	<u>955</u>
Total nonoperating expenses	<u>(5,439)</u>	<u>(6,434)</u>	<u>(5,820)</u>	<u>(6,125)</u>	<u>(5,598)</u>
Income before transfers to the City's General Fund	4,051	5,070	9,333	12,158	12,641
Transfers to the City's General Fund	<u>(4,672)</u>	<u>(4,672)</u>	<u>(4,904)</u>	<u>(5,151)</u>	<u>(5,409)</u>
Change in net position	(621)	398	4,429	7,007	7,232
Total net position – beginning, as previously stated	30,760	27,385	27,783	32,212	39,219
Restatement	<u>(2,754)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position – beginning, as restated	<u>28,006</u>	<u>27,385</u>	<u>27,783</u>	<u>32,212</u>	<u>39,219</u>
Total net position – ending	<u>\$ 27,385</u>	<u>\$ 27,783</u>	<u>\$ 32,212</u>	<u>\$ 39,219</u>	<u>\$ 46,451</u>

¹ Includes City of Buffalo Division of Water, Buffalo Water Board and Buffalo Municipal Water Finance Authority.
Source: City of Buffalo Comprehensive Annual Financial Report.

The following table presents the financial results for the Division of Water, the Buffalo Water Board and the Buffalo Municipal Water Finance Authority for Fiscal Year June 30, 2014:

**CITY OF BUFFALO
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES AND EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014¹**

	<u>Division of Water</u>	<u>Buffalo Water Board</u>	<u>Buffalo Municipal Water Finance Authority</u>	<u>Combined Total</u>
Operating revenues:				
Charges for services	\$ -	\$ 44,162,233	\$ -	\$ 44,162,233
Other	-	251,189	-	251,189
Operating transfers in (out) on entities comprising water system	<u>11,113,342</u>	<u>(11,622,977)</u>	<u>509,635</u>	<u>-</u>
Total operating revenues	<u>11,113,342</u>	<u>32,790,445</u>	<u>509,635</u>	<u>44,413,422</u>
Operating expenses:				
Services and supplies	5,306,939	9,259,852	509,635	15,076,426
Fringe benefits	5,752,321	-	-	5,752,321
Depreciation	-	4,949,048	-	4,949,048
Other	<u>72,282</u>	<u>324,048</u>	<u>-</u>	<u>396,330</u>
Total operating expenses	<u>11,131,542</u>	<u>14,532,948</u>	<u>509,635</u>	<u>26,174,125</u>
Operating income (loss)	<u>(18,200)</u>	<u>18,257,497</u>	<u>-</u>	<u>18,239,297</u>
Nonoperating revenues (expenses):				
Interest earned	18,200	187,894	-	206,094
Interest expenses	-	(6,759,811)	-	(6,759,811)
Other	<u>-</u>	<u>955,344</u>	<u>-</u>	<u>955,344</u>
Total nonoperating revenues (expenses)	<u>18,200</u>	<u>(5,616,573)</u>	<u>-</u>	<u>(5,598,373)</u>
Income before operating transfers	-	12,640,924	-	12,640,924
Operating transfers out	<u>-</u>	<u>(5,408,626)</u>	<u>-</u>	<u>(5,408,626)</u>
Change in net position	<u>\$ -</u>	<u>\$ 7,232,298</u>	<u>\$ -</u>	<u>\$ 7,232,298</u>

¹ Source: Accounting records of the City of Buffalo Division of Water, Buffalo Water Board and Buffalo Municipal Water Finance Authority.

CITY OF BUFFALO
WATER BOARD
ACTUAL DEBT SERVICE COVERAGE
For the Fiscal Years Ended June 30, 2010 through June 30, 2014

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash Receipts:					
Water Usage	\$ 32,167,643	\$ 35,381,773	\$ 38,193,997	\$ 39,956,181	\$ 40,624,289
Other Charges	2,392,528	1,546,094	1,875,115	2,330,846	2,114,133
Late Charges	948,690	513,055	868,284	1,192,955	1,231,546
Interest	294,265	577,542	188,122	230,580	312,798
Trustee Revenue Funds	-	-	-	-	-
Gross Receipts	35,803,126	38,018,464	41,125,518	43,710,562	44,282,766
Transfers to Bond Trustee for Debt Service:					
Series 1998A Bonds	304,094	301,837	340,791	-	-
Series 1998B Bonds	3,139,350	3,143,550	3,913,219	-	-
Series 2002 EFC Bonds	302,039	301,933	-	-	-
Series 2002 B Bonds	359,735	358,898	401,958	346,637	359,415
Series 2003 EFC Bonds	212,356	211,627	240,390	99,562	118,663
Series 2006 EFC Bonds	1,221,697	1,239,226	1,374,831	1,175,325	828,605
Series 2007 A Bonds	771,618	771,818	866,786	740,459	772,031
Series 2007 B Bonds	1,445,000	1,445,000	1,621,077	4,679,169	4,883,000
Series 2008 A Bonds	4,039,352	3,505,466	3,583,989	3,373,405	3,487,816
Series 2010 A Bonds	-	1,904,918	2,128,979	1,818,348	1,898,735
Series 2011 EFC Bonds	-	-	269,156	251,632	263,681
Series 2012 EFC Bonds	-	-	-	39,058	79,278
Series 2012A Bonds	-	-	-	1,019,204	940,155
Total Debt Service	11,795,241	13,184,273	14,741,177	13,542,799	13,631,379
Operating Expense Disbursements:					
System Operations	15,923,130	17,424,614	17,326,747	18,438,189	18,088,036
Payments to City in lieu of taxes and indirect costs	4,672,175	4,672,175	4,904,446	5,151,073	5,408,627
Payments to City for General Obligation Debt Service	664,259	544,623	487,052	365,529	364,557
Authority and Board Operations	1,722,714	1,870,491	1,475,142	2,227,428	1,691,036
Total Operating Disbursements	22,982,278	24,511,903	24,193,387	26,182,219	25,552,256
Increase in Available Cash	\$ 1,025,607	\$ 322,288	\$ 2,190,954	\$ 3,985,544	\$ 5,099,131
Operations and Maintenance Funds Considered Revenue	\$ 5,600,000	\$ 7,235,000	\$ 6,400,000	\$ 3,700,000	\$ 3,000,000
Pledged Gross Revenues-Debt Service Coverage¹	3.51%	3.43%	3.22%	3.50%	3.47%
Debt Service Coverage Ratio²	1.56%	1.57%	1.58%	1.57%	1.59%

¹ Pledged gross revenues-debt service coverage is computed using total projected cash receipts plus O&M reserve funds considered revenue divided by debt service.

Source: City of Buffalo Division of Accounting.

² Annual debt service coverage is computed using total cash receipts less operating expense disbursements divided by debt service.

Forecasted Debt Service Coverage and Projected Rate Increases

The table below shows the forecasted debt service coverage ratio for the Series 2015-A Bonds, as well as expected future debt service on bonds to be issued by the Authority. See “APPENDIX C - RATE CONSULTANT’S REPORT” for more information relating to the System's forecasted cash flow (hereinafter referred to as “prospective financial information”), including a description of the assumptions upon which forecasted revenues and expenses are based.

The Authority typically does not make public projections as to future sales, earnings, or other results. Solely for purposes of this Official Statement, management of the Authority has prepared the prospective financial information based on information, estimates and judgments it believes to be reasonable. Such information was not prepared with a view toward public disclosure or toward complying with the guidelines established by the American Institute of Certified Public Accountants, and is not a statement of fact. Accordingly, readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Authority's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the prospective financial information.

The Authority does not generally publish its business plans and strategies or make public projections of its anticipated financial position or results of operations. Accordingly, the Authority does not intend to update or otherwise revise the prospective financial information, regardless of whether in the future the underlying assumptions are shown to be in error or changes to economic or industry conditions occur.

The following assumptions, forecasts and projections are “forward looking statements” and not necessarily indicative of future performance. No assurance can be given that the projections presented herein will be achieved, and actual results may differ materially from these projections.

For additional information relating to the principal assumptions used in preparing the projections, see “APPENDIX C - RATE CONSULTANT’S REPORT.”

Forecasted Cash Flows
(000's omitted)

The following table sets forth the forecasted cash flows of the Buffalo Water System.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Required Net Rate Increase	0%	0%	1.0%	1.5%	1.5%	1.5%
Projected Gross Water Billings/Charges		43,102	43,446	44,010	44,580	45,159
Projected Adjustments to Water Billings/Charges		(1,552)	(1,564)	(1,584)	(1,605)	(1,626)
Projected Collections from Water Billings/Charges	39,968	39,888	40,207	40,728	41,256	41,792
Miscellaneous Fees	1,900	2,100	2,142	2,185	2,229	2,273
Water Rates Interest	1,233	1,237	1,246	1,263	1,279	1,296
Interest	82	150	152	153	155	156
Total Projected Cash Receipts	43,183	43,375	43,747	44,329	44,918	45,516
Transfers to Bond Trustee for Debt Service:						
Series 2002 Bonds	361	362	361	0	0	0
Series 2003 EFC Bonds	121	127	0	0	0	0
2006 Series (\$19.9M-EFC)	1,232	1,230	1,232	1,233	1,236	1,233
2007 Series Bonds	5,263	5,261	5,266	5,255	5,261	931
2008 Series Bonds	3,917	3,930	3,937	4,301	4,308	5,095
2010 Series Bonds	1,899	1,901	1,900	1,890	1,882	1,873
2011 EFC Bonds	267	270	277	278	289	289
2012 EFC Bonds	78	79	195	192	193	194
2012 Series Bonds	955	950	952	954	951	954
2015 Series Bonds (Ref 2008A)	(12)	(450)	(78)	(294)	(690)	(41)
Anticipated 7/2016 Bonds (\$13.4M) - for CIP 16/17	0	0	953	953	953	953
Anticipated 1/2018 Bonds (\$10.6M) - for CIP 17/18	0	0	0	377	754	754
Anticipated 1/2020 Bonds (\$12.6M) - for CIP 18/19	0	0	0	0	0	448
Anticipated 2022 Bonds (\$10.3M) - for CIP 19/20	0	0	0	0	0	0
Total Debt Service	14,081	13,660	14,995	15,139	15,137	12,683
Operating Expense Disbursements:						
System Operations						
Operator Contract	5,932	5,632	5,801	5,975	6,154	6,339
Labor & Fringes	9,487	11,751	11,986	12,226	12,470	12,720
Utilities	2,182	2,400	2,496	2,596	2,700	2,808
Payment to the City of Buffalo for General Obligation Debt Service	364	364	168	176	0	0
Payments to the City in Lieu of Taxes	5,679	5,963	6,261	6,574	6,903	7,248
Authority and Board Operations	1,326	715	729	744	759	774
Total Operating Expense Disbursements	24,970	26,825	27,441	28,291	28,986	29,888
Annual Cash Surplus/Deficit	4,132	2,890	1,311	899	795	2,945
Available O&M Reserve Funds ⁽¹⁾	20,109	14,504	13,714	13,544	12,495	13,440
O&M Reserve Funds Considered Revenue ⁽²⁾	3,000	3,900	6,200	6,700	6,800	3,400
Pay As You Go- CIP	7,000	8,300	2,000	1,000	2,000	2,000
Required Debt Service Coverage	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%
Pledged Gross Revenues-Debt Service Coverage ⁽³⁾	3.28%	3.46%	3.33%	3.37%	3.42%	3.86%
Projected Debt Service Coverage⁽⁴⁾	1.51%	1.50%	1.50%	1.50%	1.50%	1.50%
Required Net Rate Increase	0.0%	0.0%	1.0%	1.5%	1.5%	1.5%

(1) Available Operations and Maintenance reserve funds represent the total of those reserve funds in excess of 10% of the Board's next year's budget that can be used for System Operations or capital improvements to the System.

(2) Operations and Maintenance reserve funds considered revenue represent a portion of total reserve funds in excess of 10% of the Board's next year's budget that can be used to offset rate increases.

(3) Pledged gross revenues-debt service coverage is computed using total projected cash receipts plus O&M reserve funds considered revenue divided by debt service.

(4) Debt service coverage is computed using total projected cash receipts plus O&M reserve funds considered revenue less operating expense disbursements divided by debt service.

Estimated increases in water rates are shown in the table below. These rates are projected assuming a slight projected decline in the user base and in water consumption for each year included in the table below.

FISCAL YEAR ENDING <u>JUNE 30</u>	NET PROJECTED <u>RATE INCREASE*</u>
2015	.0%
2016	.0%
2017	1.0%
2018	1.5%
2019	1.5%
2020	1.5%

* Source: Lisa A. Foti, CPA, Rate Consultant

Expenditures

The Board will pay the costs of operating the System, including providing funds to pay Aggregate Debt Service on all Bonds, Operating Expenses of the System, Authority Expenses and Required Deposits. Operating Expenses of the Board will include debt service requirements on the City’s outstanding general obligation Water Supply Serial Bonds and a payment to the City in lieu of taxes and indirect costs. The Board is expected to pay the City an amount equal to \$5.7 million for the 2014-2015 Fiscal Year (see “APPENDIX E - GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS - Summary of the Operation Agreement - Payment of Costs by the Board”).

Payments to the City for General Obligation Water Bonds

The following table shows the debt service requirements to maturity on the City’s outstanding general obligation Bonds as of June 30, 2015. The Board has covenanted to pay this debt service pursuant to the Financing Agreement.

ANNUAL DEBT SERVICE REQUIREMENTS Maturing During Fiscal Year Ending June 30

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$331,796.56	\$32,570.79	\$364,367.35
2017	152,151.58	15,980.96	168,132.54
2018	<u>167,467.62</u>	<u>8,373.38</u>	<u>175,841.00</u>
Total	<u>\$651,415.76</u>	<u>\$56,925.13</u>	<u>\$708,340.89</u>

* Source: City of Buffalo Division of Accounting

LABOR RELATIONS

Pursuant to the Financing Agreement, neither the Authority nor the Board may employ any paid officers or employees. As of July 1, 2010, the Board has retained the services of Veolia Water North America-Northeast, LLC to manage the day-to-day operations of the Water Department. All present and future City employees working for the City's Division of Water continue to be City employees with no change in terms and conditions of their employment as provided in current or any future bargaining agreements.

All Division of Water employees are union members, with a total of 131 employees in the 2014-2015 budget. Division of Water employees are represented by four labor unions, AFSCME Local 264, AFSCME Local 650, Teamster Local 264, and AFL-CIO Operating Engineers Local 17.

Negotiated contracts through June 30, 2019 are in place for the 38 employees of AFSME Local 650. The current collective bargaining agreements have expired and negotiations are on-going with AFL-CIO, Teamsters Local 264, AFSCME Local 264 and Operating Engineers Local 17. The agreements expired June 30, 2012 for the 14 employees who are members of Operating Engineers Local 17 and June 30, 2011 for the 45 employees who are members of AFSCME Local 264 and June 30, 2004 for the 34 employees who are members of Teamsters Local 264.

COVENANT OF THE STATE

Section 1048-t of the Act constitutes a pledge of the State to the Bondholders not to limit or alter the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.

LITIGATION

There is no action, suit, proceeding or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the Authority, threatened against or affecting the Authority to restrain or enjoin the issuance, sale or delivery of the Series 2015-A Bonds, or in any way contesting or affecting the validity of the Series 2015-A Bonds or any proceedings of the Authority, the Board or the City taken with respect to the issuance or sale of the Series 2015-A Bonds or with respect to the Resolution, the pledge or application of any money or security provided for the payment of the Series 2015-A Bonds, or the existence or powers of the Authority or the Board.

Pursuant to the Operation Agreement and the Financing Agreement, the City has agreed, subject to certain conditions, to indemnify the Authority and the Board against any and all liability, loss or damage from or in connection with any act done or omitted in the exercise of their powers that is taken or omitted in good faith in pursuance of the purposes under the Act. The City, however, is entitled to reimbursement by the Board for the amount of any judgment or settlement paid by the City (and not otherwise reimbursed from any other source) arising out of a tort claim to the extent that the City's liability therefor is related to the construction of a Project or the operation and maintenance of the System or arising out of a contract claim to the extent that the City's liability therefor is related to the construction, operation or maintenance of the Project.

Other than certain insurance coverage provided by Veolia, neither the Authority, the Board nor the City are generally insured for tort liability, automobile liability, Workers' Compensation claims or loss or damage to the System. The City funds a reserve fund on an annual basis to fund the payment of tort settlements and judgments. In addition to the foregoing, Contractors providing construction or professional services, equipment, materials and other goods and services are as a matter of course required to provide indemnification and insurance in forms and amounts acceptable to legal counsel to the Board and the City. Contractors' insurance names the Board, City and Authority as additional insureds. There are a limited number of tort claims pending against the Authority and/or the Board. In the opinion of the City Corporation Counsel's Office, none of the claims are of a substantial or catastrophic nature. In the further opinion of the City Corporation Counsel's Office, uninsured tort claim payments made in any given year or time frame will not have a material adverse impact upon the Authority's and/or the Board's finances.

Veolia is obligated to indemnify, defend, and hold harmless the Authority, the Board, and the City, to the extent of Veolia's insurance coverage, against any and all liabilities, suits, actions, demands, judgments, losses, expenses, damages, claims and costs, including reasonable attorneys' fees and court costs, for injury to any person or property caused by Veolia's negligence, omission, or other tortious conduct in the operation, maintenance, or repair of the System. This indemnification shall not cover damages, claims, or liabilities arising from the gross negligence of the City, the Board, or the Authority. Regardless of its insurance, Veolia shall indemnify, defend, and hold harmless the Authority, the Board, and the City for damages arising from grievance awards to union employees and/or damages from Veolia's failure to abide by the terms of collective bargaining agreements covering union employees and for suits, actions, demands, judgments, losses, expenses, damages, liabilities, and costs, including reasonable attorneys' fees and court costs, arising from the illegal transportation, storage, disposal, or release of hazardous substances due to Veolia's failure to comply with applicable laws, Veolia's negligence, or Veolia's tortious conduct, except to the extent that such liabilities are caused by the Board or the City. Veolia's indemnifications survive the expiration or termination of the Operation Agreement. The maximum amount of Veolia's liability for indemnification is \$50,000,000, excluding amounts paid by the Board or a third-party, amounts covered by insurance or bonds, amounts in connection with fraud or intentional torts, amounts arising from the gross negligence or willful misconduct of Veolia or its employees or agents, amounts paid for unrelated third-party claims, governmental fines, amounts paid for claims made directly by third-parties against Veolia, and operating losses.

TAX MATTERS

Tax-Exempt Bonds

The Internal Revenue Code of 1986 (the "Code") generally excludes interest on State and local bonds pursuant to Section 103 of the Code, as amended. The Section 103 exclusion does not apply unless certain requirements are met subsequent to the issuance and delivery of the Series 2015-A Bonds. Non-compliance with such requirements could cause the interest on the Series 2015-A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance. The Authority has covenanted in the Arbitrage and Use of Proceeds Certificate (the "Series 2015-A Certificate") to comply with the applicable requirements of the Code, and has made certain representations and certifications, in order to maintain the exclusion of interest on the Series 2015-A Bonds from gross income for Federal income tax purposes. In the opinion of Bond Counsel, a form of which is attached in APPENDIX F hereto, under existing statutes, regulations and court decisions and assuming continuing compliance with the aforementioned Series 2015-A Certificate and the accuracy of certain representations and certifications by the Authority, interest on the Series 2015-A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that interest on the Series 2015-A Bonds is not treated as a preference

item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. However, interest on the Series 2015-A Bonds will be included in the adjusted current earnings of certain corporations to compute the alternative minimum tax imposed on such corporations.

Furthermore, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2015-A Bonds is exempt from personal income tax of New York State and its political subdivisions (including the City of New York.)

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters under existing statutes with respect to the Series 2015-A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2015-A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own advisors regarding the Federal tax consequences of owning and disposing of the Series 2015-A Bonds, as well as any tax consequences arising under the laws of any State or other taxing jurisdiction.

Prospective owners of the Series 2015-A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property, casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations, the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2015-A Bonds may also be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Limitations

The opinions of Bond Counsel described herein with respect to the Federal income tax treatment of interest paid on the Series 2015-A Bonds will be limited to the matters addressed herein and no other opinions are to be rendered with respect to other Federal or State income tax consequences arising with respect to the Series 2015-A Bonds. The opinions expressed herein are based upon the current provisions of the Code, underlying regulations and present administrative positions related thereto, all of which are subject to change. Bond Counsel can give no assurance that new legislation will not be enacted in the future that will reduce or eliminate favorable Federal income tax treatment on the Series 2015-A Bonds. Any such future legislation would have an adverse effect on the market value of the Series 2015-A Bonds.

APPROVAL OF LEGAL PROCEEDINGS

The issuance of the Series 2015 Bonds is subject to the approval of legality by Underberg & Kessler LLP, Rochester, New York, Bond Counsel. Certain legal matters will be passed on for the Authority, the Board, and the City by the City's Corporation Counsel, and for the Underwriters by their counsel, Harter Secrest & Emery LLP, Rochester, New York.

LEGALITY FOR INVESTMENT AND DEPOSIT

Under the Act, the Series 2015-A Bonds are made securities in which all public officials and bodies of the State and all municipalities, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, investment companies and other persons carrying on a banking business, and administrators, guardians, executors, trustees and other fiduciaries and all other persons whatsoever, who are now or may hereafter be authorized to invest in the Series 2015-A Bonds or other obligations of the State, may properly and legally invest funds including capital in their control or belonging to them in such Series 2015-A Bonds. The Act further provides that the Series 2015-A Bonds are securities that may be deposited with and may be received by all public officers and bodies of the State and all municipalities for any purposes for which the deposit of bonds or other obligations of the State is or may hereafter be authorized.

AUDITORS AND CONSULTANTS

Independent Auditors

Drescher & Malecki, LLP, Certified Public Accountants, served as independent auditors to the Board. Please see “APPENDIX A - BUFFALO MUNICIPAL WATER FINANCE AUTHORITY AND BUFFALO WATER BOARD AUDITED BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013, AND INDEPENDENT AUDITORS' REPORTS” for certain financial information regarding the Authority and the Board.

Consulting Engineer

CRA Infrastructure & Engineering, Inc., Buffalo, New York, served as a consulting engineer to the Board with respect to the issuance and the sale of the Series 2015-A Bonds. Please see “APPENDIX B - ENGINEERING REPORT - 2015 EVALUATION OF THE BUFFALO WATER SYSTEM”, which includes the Consulting Engineer’s feasibility report.

Rate Consultant

Lisa A. Foti, CPA, Buffalo, New York, served as a rate consultant to the Board with respect to the issuance and the sale of the Series 2015-A Bonds. Please see “APPENDIX C - RATE CONSULTANT’S REPORT”, which includes her examination of the financial forecast and a letter of concurrence of CRA Infrastructure & Engineering, Inc.

RATINGS

Standard and Poor’s Ratings Services (“S&P”) has assigned a rating of “A” to the Series 2015-A Bonds and outstanding parity Bonds. Such rating reflects only the views of S&P and explanation of the significance of such rating may only be obtained from S&P. Generally, a rating agency bases its rating on the information and material furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will remain in effect for any given period of time or that they may not be lowered, suspended or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Series 2015-A Bonds.

UNDERWRITING

Samuel A. Ramierz & Co., Inc., as representative, (the “Representative”) of the underwriters (the “Underwriters”) under a Contract of Purchase for the Series 2015-A Bonds, between the Authority and the Underwriters, has agreed to purchase the Series 2015-A Bonds at an aggregate purchase price of \$52,518,160.19, being the par amount of the Series 2015-A Bonds, plus an original issue premium of \$6,158,954.90, less the Underwriter’s discount of \$295,794.71. The Underwriters will initially offer the Series 2015-A Bonds to the public at the public offering yields set forth on the inside cover of this Official Statement. The Contract of Purchase provides that the Underwriters will purchase all of the Series 2015-A Bonds if any Series 2015-A Bonds are purchased.

The Underwriters may offer and sell the Series 2015-A Bonds to certain dealers and others at prices other than the initial offering prices. The offering prices may be changed from time to time by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Bonds.

Siebert Brandford Shank & Co., L.L.C., one of the underwriters of the Bonds, has entered into an agreement with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Credit Suisse Securities (USA) will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Credit Suisse Securities (USA) sells. Siebert Brandford Shank & Co., L.L.C. will share a portion of its underwriting compensation with Credit Suisse Securities (USA).

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

FINANCIAL ADVISOR

Capital Markets Advisors, LLC, Orchard Park, New York, serves as Financial Advisor to the Authority on matters relating to debt management. The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Financial Advisor has provided advice as to the plan of financing and the structuring of the Series 2015-A Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the Series 2015-A Bonds was based on materials provided by the

Authority and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the Authority or the information set forth in this Official Statement or any other information available to the Authority with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other material related to such information and this Official Statement.

VERIFICATION OF MATHEMATICAL ACCURACY

Causey Demgen and Moore PC will deliver its report indicating that it has verified the mathematical accuracy of the computations in the schedules provided by the Underwriters. Included in the scope of its verification report will be a verification of the mathematical accuracy of (a) the computations of the adequacy of the cash, the maturing principal amounts and the interest on the government obligations deposited with the Trustee for the refunding of the Refunded Bonds and paying of the interest and redemption price coming due on the Refunded Bonds on or prior to their respective redemption dates as described in the Authority's Refunding Financial Plan and "SOURCES AND USES OF FUNDS" and (b) the computations supporting the conclusion of Bond Counsel that the Series 2015-A Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

CONTINUING DISCLOSURE OBLIGATIONS

In order to assist the Underwriters in complying with the provisions of paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the Authority and the Board will undertake, in a written agreement for the benefit of the holders and beneficial owners of the Series 2015-A Bonds (the "Continuing Disclosure Agreement") to provide to the Municipal Securities Rulemaking Board ("MSRB") as the sole nationally recognized securities repository through the MSRB's Electronic Municipal Market Access system ("EMMA") on an annual basis no later than 210 days after the end of each respective Fiscal Year of the Authority, commencing with the Fiscal Year ending June 30, 2015, certain financial and operating data concerning the Authority and the Board of the type included in this Official Statement and as specified in the Continuing Disclosure Agreement. In addition, the Authority and the Board will undertake, for the benefit of the holders and beneficial owners of the Series 2015 Bonds, to provide notice to the MSRB through EMMA, in a timely manner, but in not more than 10 business days after the occurrence of any event enumerated in the Rule. Any filing to be made under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the MSRB through EMMA as provided at <http://emma.msrb.org>. See "APPENDIX G - FORM OF CONTINUING DISCLOSURE AGREEMENT" for additional information regarding secondary market disclosure.

The Authority represents that it has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of listed events. Notwithstanding the previous sentence and only with respect to its Series 2002-B Bonds, the Authority filed its annual report for the fiscal year ended June 30, 2014 on February 25, 2015, which date was approximately 75 days after the required filing date.

The Board has made all of its required filings, except as described in this paragraph. For the fiscal year ended June 30, 2012, (i) the Board did not file its annual report and (ii) did not make a separate filing of its revised CIP, although the CIP was included in the Board's 2012 Official Statement). To remedy both matters, the Board posted its 2012 annual report and its 2012 CIP on

EMMA on April 23, 2015 and April 24, 2015, respectively. With respect to the Authority's Series 2002-B Bonds, the Board filed its annual report for the fiscal year ended June 30, 2014 on February 25, 2015, which date was approximately 75 days after the required filing date.

FURTHER INFORMATION

The references herein to and summaries of Federal, State and local laws, including, but not limited to, the Code, the Constitution and laws of the State, the Act and documents, instruments and agreements, including, but not limited to, the Financing Agreement, Acquisition Agreement, Operation Agreement, and the Resolution, are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or instruments. Copies of the Financing Agreement, Acquisition Agreement, Operation Agreement and the Resolution are available for inspection during normal business hours at the office of the Authority.

Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. Neither this Official Statement nor any statement that may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchaser or any Holders of the Series 2015-A Bonds.

[Signature Page Follows]

This Official Statement has been duly executed and delivered by the authorized representative of the Authority and the Authority has authorized its distribution to prospective purchasers of the Series 2015-A Bonds.

BUFFALO MUNICIPAL WATER FINANCE AUTHORITY

By: /s/ Donna J. Estrich
Donna J. Estrich, Vice-Chair

May 21, 2015

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APPENDIX A

**BUFFALO MUNICIPAL WATER FINANCE AUTHORITY AND BUFFALO WATER
BOARD AUDITED BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEARS ENDED JUNE 30, 2014
AND JUNE 30, 2013, AND INDEPENDENT AUDITORS' REPORTS**

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER
FINANCE AUTHORITY
A COMPONENT UNIT OF THE
CITY OF BUFFALO, NEW YORK
Basic Financial Statements and
Supplementary Information for the
Years Ended June 30, 2014 and 2013
and Independent Auditors' Report

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Buffalo Municipal Water Finance Authority
Buffalo, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Authority Investments, as required by Public Authorities Law of the State of New York, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



November 18, 2014

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

As management of the City of Buffalo, New York's (the "City") Buffalo Municipal Water Finance Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2014 and 2013. This document should be read in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative. For comparative purposes, certain items relating to the June 30, 2013 and 2012 presentation have been reclassified.

Financial Highlights

- The Authority's total assets and deferred outflows of resources decreased \$7,667,043 from June 30, 2013 to June 30, 2014 primarily due to scheduled payments made on long-term debt, which also decreased the total liabilities \$7,667,043.
- The Authority's restricted cash decreased \$4,593,165 from June 30, 2013 to June 30, 2014.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise of two components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The City uses an enterprise fund to account for the activities of the Authority, which reports information about the general operations of the Authority. The Authority was established to issue debt for the Buffalo Water Board.

Basic financial statements—The basic financial statements are prepared using the accrual basis of accounting. The financial statements include:

The *statements of net position* present all of the Authority's assets, deferred outflows of resources, and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Authority.

The *statements of revenues, expenses, and changes in net position* present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *statements of cash flows* provide information related to the sources of cash, the uses of cash, and the change in the cash balances during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities.

These financial statements can be found on pages 8-10 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11-17 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *supplementary information* concerning the Authority’s budgetary comparison for the years ended June 30, 2014 and 2013 and the Schedule of Authority Investments, as required to be reported under New York State Public Authority Law. Supplementary information can be found on pages 18-20 of this report.

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Authority’s activities. These two statements report the net position of the Authority and changes in them. Net position, the difference between the sum of assets and deferred outflows of resources, and liabilities, is one way to measure financial health or financial position. In accordance with a financing agreement, the Buffalo Water Board is required to transfer funds to the Authority to cover the expenses of the Authority, and any fund transfers to the Authority that are not needed for current year operations are returned to the Water Board. Therefore, the Authority does not accumulate any net position.

Table 1, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 1—Condensed Statements of Net Position for the fiscal years ended June 30, 2014 and June 30, 2013

	June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Current assets:				
Cash	\$ 268,067	\$ 223,575	\$ 44,492	19.9
Restricted cash	34,083,202	38,676,367	(4,593,165)	(11.9)
Other current assets	7,790,898	7,608,995	181,903	2.4
Total current assets	<u>42,142,167</u>	<u>46,508,937</u>	<u>(4,366,770)</u>	<u>(9.4)</u>
Noncurrent assets:				
Due from Water Board	109,664,128	112,495,171	(2,831,043)	(2.5)
Total noncurrent assets	<u>109,664,128</u>	<u>112,495,171</u>	<u>(2,831,043)</u>	<u>(2.5)</u>
Total assets	<u>151,806,295</u>	<u>159,004,108</u>	<u>(7,197,813)</u>	<u>(4.5)</u>
Deferred outflows of resources	<u>3,949,573</u>	<u>4,418,803</u>	<u>(469,230)</u>	<u>(10.6)</u>
Liabilities:				
Current liabilities	10,938,199	10,630,985	307,214	2.9
Noncurrent liabilities	144,817,669	152,791,926	(7,974,257)	(5.2)
Total liabilities	<u>155,755,868</u>	<u>163,422,911</u>	<u>(7,667,043)</u>	<u>(4.7)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Table 2, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2—Condensed Statements of Net Position for the fiscal years ended June 30, 2013 and June 30, 2012

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Current assets:				
Cash	\$ 223,575	\$ 224,827	\$ (1,252)	(0.6)
Restricted cash	38,676,367	45,326,058	(6,649,691)	(14.7)
Other current assets	7,608,995	6,973,994	635,001	9.1
Total current assets	<u>46,508,937</u>	<u>52,524,879</u>	<u>(6,015,942)</u>	<u>(11.5)</u>
Noncurrent assets:				
Due from Water Board	112,495,171	112,806,160	(310,989)	(0.3)
Total noncurrent assets	<u>112,495,171</u>	<u>112,806,160</u>	<u>(310,989)</u>	<u>(0.3)</u>
Total assets	<u>159,004,108</u>	<u>165,331,039</u>	<u>(6,326,931)</u>	<u>(3.8)</u>
Deferred outflows of resources	<u>4,418,803</u>	<u>4,873,478</u>	<u>(454,675)</u>	<u>(9.3)</u>
Liabilities:				
Current liabilities	10,630,985	9,843,096	787,889	8.0
Noncurrent liabilities	152,791,926	160,361,421	(7,569,495)	(4.7)
Total liabilities	<u>163,422,911</u>	<u>170,204,517</u>	<u>(6,781,606)</u>	<u>(4.0)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

As can be seen from Table 1 and Table 2, the sum of assets and deferred outflows of resources, and total liabilities each decreased \$7,667,043 from June 30, 2013 to June 30, 2014, while the sum of assets and deferred outflows of resources, and total liabilities each decreased \$6,781,606 from June 30, 2012 to June 30, 2013.

There was no change in net position for the fiscal years ended June 30, 2014 and 2013. Transfers in from the Buffalo Water Board covered all operating expenses.

Significant changes from 2013 to 2014 in the Statements of Net Position and the reasons for the changes are:

- Total assets decreased \$7,197,813, which was primarily due to restricted cash and amounts due from entities comprising the water system decreasing \$4,593,165 and \$2,665,145, respectively, for cash utilized to make bond payments during the year.
- Deferred outflows of resources decreased by \$469,230 for current year amortization of a deferred loss on refunding.
- Total liabilities decreased by \$7,667,043, resulting primarily from the scheduled payments of bonds during the fiscal year.

Significant changes from 2012 to 2013 in the Statements of Net Position and the reasons for the changes are:

- Total assets decreased \$6,326,931, which was primarily due to restricted cash and amounts due from entities comprising the water system decreasing \$6,649,691 and \$310,989, respectively, for cash utilized to make bond payments during the year. This was slightly offset by an increase in the amount due from entities comprising the water system of \$635,000, resulting from an increase in the current portion of bonds payable.
- Deferred outflows of resources decreased by \$454,675 for current year amortization of a deferred loss on refunding.
- Current liabilities increased by \$787,889 resulting primarily from an increase in the current portion of bonds payable by \$635,000
- Long-term liabilities decreased by \$7,569,495, resulting from the scheduled payments of bonds during the fiscal year.

Table 3, as presented below, shows the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 3—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2014 and June 30, 2013

	Year Ended June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Expenses:				
Services and supplies	\$ 509,635	\$ 589,759	\$ (80,124)	(13.6)
Transfers in	509,635	589,759	(80,124)	(13.6)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

While the Statements of Net Position display the change in the Authority’s financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As illustrated in Table 3, there was no change in net position for the years ended June 30, 2014 and 2013.

The decrease in services and supplies for the year ended June 30, 2014 by \$80,124 from the fiscal year ended June 30, 2013 is due primarily to the decrease in fiscal agent fees in the current year.

Table 4, as presented below, shows the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 4—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2013 and June 30, 2012

	Year Ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Expenses:				
Services and supplies	\$ 589,759	\$ 611,236	\$ (21,477)	(3.51)
Transfers in	589,759	611,236	(21,477)	(3.51)
Change in net position	-	-	-	-
Net position—beginning	-	-	-	-
Net position—ending	\$ -	\$ -	\$ -	-

As illustrated in Table 4, there was no change in net position for the years ended June 30, 2013 and 2012.

The decrease in services and supplies for the fiscal year ended June 30, 2013 by \$21,477 from the fiscal year ended June 30, 2012 is due primarily to lower legal and fiscal agent fees.

Budgetary Highlights

Budgetary comparison schedules are presented as supplementary information.

For the fiscal year ended June 30, 2014, the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$46,157. This was primarily due to lower than anticipated fiscal agent expenses fees.

For the fiscal year ended June 30, 2013, the original budget was increased \$1,625 during the year. Actual expenditures were lower than the final budget by \$23,472. This was primarily due to lower than anticipated fiscal agent expenses and legal fees.

Long-Term Debt

The Authority had \$152,105,000 and \$159,470,000 of outstanding revenue bonds at June 30, 2014 and June 30, 2013, respectively. These bonds are scheduled to be paid in full by 2040. No new debt was issued by the Authority during the fiscal years ended June 30, 2014 and June 30, 2013.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York, 14202.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Net Position
June 30, 2014 and 2013

	June 30,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 268,067	\$ 223,575
Restricted cash and cash equivalents	34,083,202	38,676,367
Due from entities comprising the water system	7,790,898	7,365,000
Due from other governments	-	243,995
Total current assets	42,142,167	46,508,937
Noncurrent assets:		
Due from entities comprising the water system	109,664,128	112,495,171
Total noncurrent assets	109,664,128	112,495,171
Total assets	151,806,295	159,004,108
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	3,949,573	4,418,803
Total deferred outflows of resources	3,949,573	4,418,803
LIABILITIES		
Current liabilities:		
Accounts payable	12,030	12,294
Accrued interest	3,135,271	3,253,691
Bonds payable within one year	7,790,898	7,365,000
Total current liabilities	10,938,199	10,630,985
Noncurrent liabilities:		
Bonds payable	144,817,669	152,791,926
Total noncurrent liabilities	144,817,669	152,791,926
Total liabilities	155,755,868	163,422,911
NET POSITION		
Net investment in capital assets	-	-
Unrestricted	-	-
Total net position	\$ -	\$ -

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	Year Ended June 30,	
	2014	2013
Operating expenses:		
Services and supplies	\$ 509,635	\$ 589,759
Total operating expenses	509,635	589,759
Operating loss	(509,635)	(589,759)
Transfers in	509,635	589,759
Change in net position	-	-
Total net position—beginning	-	-
Total net position—ending	\$ -	\$ -

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to supplies for goods and services	\$ (509,899)	\$ (613,043)
Net cash used for operating activities	(509,899)	(613,043)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	509,635	441,921
Advances from other funds	2,816,591	-
Net cash provided by noncapital financing activities	3,326,226	441,921
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds	(7,365,000)	(6,479,821)
Net cash used for capital and related financing activities	(7,365,000)	(6,479,821)
Net decrease in cash and cash equivalents	(4,548,673)	(6,650,943)
Cash and cash equivalents—beginning	38,899,942	45,550,885
Cash and cash equivalents—ending	\$ 34,351,269	\$ 38,899,942
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (509,635)	\$ (589,759)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
(Decrease) in accounts payable	(264)	(23,284)
Net cash used for operating activities	\$ (509,899)	\$ (613,043)

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Buffalo Municipal Water Finance Authority (the "Authority"), a component unit of the City of Buffalo, New York (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the "GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Buffalo Municipal Water Finance Authority (the "Authority") is a public benefit corporation created pursuant to Section 1048A-BB of Title 2B of Article V of the New York State Public Authorities Law (the "Act"). According to the Act, the Authority may borrow money and issue negotiable or non-negotiable notes, bonds, or other obligations. The Authority is the entity created to finance the capital needs of the Buffalo Water System (the "System"), which is owned by the Buffalo Water Board (the "Board"), a public benefit corporation created by the Act. The Authority is a blended component unit of the City and, as such is included in the City's basic financial statements.

The Authority, Board, and City have entered into a financing agreement originally dated September 24, 1992, to ensure sufficient water rates are collected to fund the costs of operating, managing, and maintaining the System. The Board is responsible for establishing rates and charges for water services; collection of user charges and fees; and operations, repairs, and maintenance of the System. By an amendment dated August 1, 1997, the Authority amended its previous financing agreement with the Board and the City to allow the Board to engage a private contractor to manage the operation and maintenance of the System, which was previously performed by the City.

The Authority continues to hold construction funds for the Board and disburses funds as capital project expenditures are incurred. The Board pays funds to the Authority to meet authority debt service obligations. The operations of the Authority are limited to facilitating the financing of the System's acquisition and construction improvements. As a result of the financing agreement between the Authority, Board, and City, the bond issuance and interest costs are, from an economic standpoint, borne by the Board and, therefore, accounted for by the Board. Transfers from the Board fund the operating and administrative costs of the Authority.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

These financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a

liability is incurred, regardless of the timing of related cash flows. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of services and supplies and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash, Cash Equivalents and Investments—The Authority’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. Permissible investments include obligations of the United States Treasury, United State Agencies, repurchase agreements, obligations of New York State or its localities and certificates of deposit. Investments are stated at fair value which approximates cost.

Restricted Cash and Cash Equivalents—Unspent proceeds from debt are reported as restricted cash and cash equivalents.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At June 30, 2014 and 2013, the Authority reports a deferred loss on refunding within deferred outflows of resources for \$3,949,573 and \$4,418,803, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2014 and 2013, the Authority does not have any items that qualify for reporting in this category.

Other

Annual Budgets—Annual budgets are used as a management tool. The Authority may amend the budget, but only in accordance with, and after receipt of, amended budget documents.

Estimates—The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications—Certain amounts from the prior year were reclassified to conform with the current year presentation. Additionally, certain amounts included in the City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 were reclassified to conform with the Authority’s presentation.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2014, the Authority implemented GASB Statements No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; and No. 70, *Accounting and Financial Reporting for Nonexchange*

Financial Guarantees. GASB Statement No. 66 improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 67 improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope, and GASB Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements Nos. 66, 67, and 70 did not have a material impact on the Authority's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB statement No. 27*, No. 69, *Government Combinations and Disposals of Government Operations*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the fiscal year ending June 30, 2015. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 68, 69 and 71 will have on its financial position and results of operations when such statements are adopted.

2. CASH AND CASH EQUIVALENTS

The Authority's policy is to obtain collateral for its cash deposits based on calculated average monthly balances for each bank in which the Authority maintains cash deposits. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by FDIC insurance. The amount of cash in banks, including certificates of deposit, as of June 30, 2014, was \$268,090 and the book balance was \$268,067. The carrying amount of cash in banks, including certificates of deposit, as of June 30, 2013, was \$441,616 and the book balance was \$223,575. All deposits of the Authority were fully collateralized as of June 30, 2014 and 2013.

All deposits are carried at fair value and are classified by custodial credit risk at June 30, 2014 and 2013 as follows:

	June 30, 2014		June 30, 2013	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
FDIC insured	\$ 752,067	\$ 752,067	\$ 752,191	\$ 752,191
Uninsured:				
Collateral held by pledging bank's agent in Water Board's name	<u>33,603,513</u>	<u>33,599,202</u>	<u>38,369,387</u>	<u>38,147,751</u>
Total	<u>\$ 34,355,580</u>	<u>\$ 34,351,269</u>	<u>\$ 39,121,578</u>	<u>\$ 38,899,942</u>

Restricted cash and cash equivalents represents amounts restricted for debt service and construction purposes and consists of the following:

	June 30, 2014		June 30, 2013	
	Bank Balance	Carrying Balance	Bank Balance	Carrying Balance
U.S. Treasury	\$ 725,264	\$ 725,264	\$ 725,264	\$ 725,264
Money market fund	33,357,938	33,357,938	37,954,725	37,951,103
Total	<u>\$ 34,083,202</u>	<u>\$ 34,083,202</u>	<u>\$ 38,679,989</u>	<u>\$ 38,676,367</u>

Custodial Credit Risk—Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of June 30, 2014 and 2013, the Authority’s deposits were FDIC insured or collateralized.

3. DUE FROM ENTITIES COMPRISING THE WATER SYSTEM

Due from entities comprising the water system represents the net receivables and payables between the Authority and the Board. The Authority issues all debt on behalf of the Board. As of June 30, 2014, the Board owed the Authority \$125,609,242 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$8,154,216 as of June 30, 2014, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$117,955,026, of which \$7,790,898 is recorded as a current asset and \$109,664,128 as a noncurrent asset.

As of June 30, 2013, the Board owed the Authority \$128,075,894 for expenses incurred and paid for with bond proceeds, less any principal payments made on the outstanding bonds by the Board. Additionally, the Authority owed the Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171, of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

4. LONG-TERM LIABILITIES

All long-term bonded debt instruments are revenue bonds, which are backed by the full faith and credit of the Authority. Interest is paid semi-annually. Principal is paid annually.

Long-term bonded debt outstanding as of June 30, 2014, is as follows:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2013	Additions	Payments	Balance 6/30/2014	Due Within One Year
2002	\$ 11,785,000	2.5-4.8	2018	\$ 1,580,000	\$ -	\$ 290,000	\$ 1,290,000	\$ 300,000
2003	3,901,741	5.6-6.3	2031	350,000	-	110,000	240,000	115,000
2006	19,917,236	3.6-4.8	2028	14,745,000	-	790,000	13,955,000	815,000
2007	13,010,000	3.6-4.38	2038	11,780,000	-	275,000	11,505,000	285,000
2007	29,220,000	5.0	2027	28,900,000	-	3,440,000	25,460,000	3,610,000
2008	62,020,000	3.7-5.1	2036	57,055,000	-	1,410,000	55,645,000	1,435,000
2010	23,975,000	2.0-6.9	2040	23,045,000	-	480,000	22,565,000	490,000
2011	2,720,000	1.5-5.1	2022	2,290,000	-	225,000	2,065,000	230,000
2012	17,150,000	1.8-4.0	2037	17,150,000	-	345,000	16,805,000	355,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	-	2,575,000	-
Total				159,470,000	-	7,365,000	152,105,000	7,635,000
Unamortized bond premium				940,155	-	193,171	746,984	165,710
Unamortized bond discount				(253,229)	-	(9,812)	(243,417)	(9,812)
Net bonded debt				<u>\$ 160,156,926</u>	<u>\$ -</u>	<u>\$ 7,548,359</u>	<u>\$ 152,608,567</u>	<u>\$ 7,790,898</u>

On April 11, 2012, the Authority issued \$17,150,000 of water system revenue bonds. Principal payments begin on July 1, 2013 and mature in 2037. These bonds were issued at a discount of \$106,401 and bear an interest rate ranging between 1.75% and 4.00%.

On June 21, 2012, the Authority refinanced a \$2,575,000 New York State Environmental Facilities bond issue. Principal payments begin on July 15, 2016 and mature in 2031. These bonds bear an interest rate ranging between 5.60 % and 6.31%.

The Authority advances the proceeds of the revenue bonded debt to the Water Board as the related expense is incurred by the Board. Accordingly, the amount due from the Water Board will generally differ from the outstanding obligations at year-end. The amount of proceeds expended net of principal payments made as of June 30, 2014, was \$125,609,242 (which represents the outstanding proceeds of \$152,105,000, net of the unexpended funds of \$26,495,758). Additionally, the Water Authority owes the Water Board \$8,154,216 as of June 30, 2014, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Water Board to the Authority totals \$117,455,026, of which \$7,790,898 is recorded as a current asset and \$109,664,128 as a noncurrent asset.

The amount of proceeds expended net of principal payments made as of June 30, 2013, was \$128,075,894 (which represents the outstanding proceeds of \$159,470,000, net of the unexpended funds of \$31,394,106). Additionally, the Water Authority owes the Water Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Board to the Authority totals \$119,860,171 of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

Future payments on long-term debt at June 30, 2014, are as follows:

Fiscal Year	Principal	Interest
2015	\$ 7,635,000	\$ 6,584,132
2016	7,990,000	6,265,638
2017	8,355,000	5,917,510
2018	8,645,000	5,535,457
2019	9,045,000	5,147,444
2020-2024	35,310,000	20,811,744
2025-2029	36,635,000	13,442,011
2030-2034	19,070,000	6,995,224
2035-2039	13,215,000	3,327,612
2040-2043	6,205,000	475,531
Total	<u>\$ 152,105,000</u>	<u>\$ 74,502,303</u>

Accrued Derivative Liability—On May 9, 2008, the Authority issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously existing debt. The Authority refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the Water System and Citibank, N.A, NY (“Swap Provider”) that converts the Authority’s variable-rate exposure relating to the Series 2008A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008A Bonds. Under the terms of the Swap Agreement, the Water System will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the Water System a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the Water System under the Swap Agreement does not affect the Authority’s obligation to pay, when due, the principal and interest on the Series 2008A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005B Bonds on July 1, 2035. The Water System entered into this swap agreement to hedge its interest rate exposure over the life of the bonds. Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the Water System or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The Water System shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2014, the notional amount of the bonds is \$55,175,000. The amount that the Authority received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$63,539, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$32,273, by \$31,266. At June 30, 2013, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$85,063, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$75,273, by \$9,790. The fair value of the derivative at June 30, 2014 based on quoted market prices is negative \$1,816,216, and is recorded as a derivative liability within the noncurrent liabilities on the Board’s financial statements.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2014, which is the date the financial statements are available for issuance, and has determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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SUPPLEMENTARY INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
Operating expenses:				
Services and supplies	\$ 60,300	\$ 61,925	\$ 44,650	\$ 17,275
Fiscal agent expenses	<u>493,867</u>	<u>493,867</u>	<u>464,985</u>	<u>28,882</u>
Total operating expenses	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>46,157</u>
 Deficiency of revenues over expenses	<u>(554,167)</u>	<u>(555,792)</u>	<u>(509,635)</u>	<u>46,157</u>
Other financing sources:				
Operating transfers in—transfer from Water Board	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>(46,157)</u>
Total other financing sources	<u>554,167</u>	<u>555,792</u>	<u>509,635</u>	<u>(46,157)</u>
 Change in net position	-	-	-	-
 Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Budgetary</u> <u>Actual Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
Operating expenses:				
Services and supplies	\$ 60,300	\$ 61,925	\$ 49,550	\$ 12,375
Fiscal agent expenses	<u>551,306</u>	<u>551,306</u>	<u>540,209</u>	<u>11,097</u>
Total operating expenses	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>23,472</u>
 Deficiency of revenues over expenses	<u>(611,606)</u>	<u>(613,231)</u>	<u>(589,759)</u>	<u>23,472</u>
 Other financing sources:				
Operating transfers in—transfer from Water Board	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
Total other financing sources	<u>611,606</u>	<u>613,231</u>	<u>589,759</u>	<u>(23,472)</u>
 Change in net position	-	-	-	-
 Total net position—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF BUFFALO, NEW YORK
BUFFALO MUNICIPAL WATER FINANCE AUTHORITY
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Authority Investments
Year Ended June 30, 2014

Annual Investment Report - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the Water Authority, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report.

- a. Investment guidelines – the Water Authority’s investment policy was adopted by the Board of Directors.
- b. Amendments to guidelines – none.
- c. Explanation of guidelines and investments – the Water Authority has not made any amendments to its investment policy. These guidelines restrict investment of Water Authority funds to:
 - Certificates of Deposit (“CD”) issued by a bank or trust company authorized to do business in New York State;
 - Time Deposit (“TD”) accounts and Negotiable Order of Withdrawal (“NOW”) accounts in a bank or trust company authorized to do business in New York State;
 - Obligations of New York State;
 - Repurchase agreements involving the purchase and sale of direct obligations of the United States;
 - Obligations of agencies of the federal government, if principal and interest is guaranteed by the United States; and
 - With the approval of the New York State Comptroller, in Revenue Anticipation Notes or Tax Anticipation Notes of other local governments.
- d. Results of the annual independent audit – the independent auditors have issued an unmodified opinion on the Water Authority’s financial statements for the fiscal year ended June 30, 2014.
- e. Investment income record – The Water Authority had no investment income for the fiscal year ended June 30, 2014.
- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report – no such fees or commissions were paid during the fiscal year ended June 30, 2014.

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CITY OF BUFFALO, NEW YORK

BUFFALO WATER BOARD

A COMPONENT UNIT OF THE

CITY OF BUFFALO, NEW YORK

*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Other
Information for the Years Ended June 30, 2014 and 2013
and Independent Auditors' Reports*

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
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Years Ended June 30, 2014 and 2013

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Buffalo Water Board
City of Buffalo, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Buffalo Water Board (the "Water Board"), a component unit of the City of Buffalo, New York (the "City") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Water Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Water Board's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Board as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Board's basic financial statements. The Supplementary Information and Other Information, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



November 18, 2014

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

As management of the City of Buffalo, New York's (the "City") Buffalo Water Board (the "Water Board"), we offer readers of the Water Board's financial statements this narrative overview and analysis of the financial activities of the Water Board for the fiscal years ended June 30, 2014 and 2013. This document should be read in conjunction with additional information that we have furnished in the Water Board's financial statements, which follow this narrative. For comparative purposes, certain items relating to the June 30, 2013 and 2012 presentation have been reclassified.

Financial Highlights

- The assets and deferred outflows of resources of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2014 by \$46,450,359 (*net position*). This consisted of \$11,536,770 net investment in capital assets and unrestricted net position of \$34,913,589. The assets and deferred outflows of resources of the Water Board exceeded its liabilities at the close of the fiscal year ended June 30, 2013 by \$39,218,061 (*net position*). This consisted of \$8,914,136 net investment in capital assets and unrestricted net position of \$30,303,925.
- The Water Board's total net position increased by \$7,232,298 and \$7,006,700 for the fiscal years ended June 30, 2014 and 2013, respectively.
- For the year ended June 30, 2014, total operating and nonoperating revenues increased by \$478,540 from the year ended June 30, 2013, or 1.1%, while total expenses decreased \$4,611 over the same period. For the year ended June 30, 2013, total operating and nonoperating revenues increased by \$3,880,032 from the year ended June 30, 2012, or 9.4%, while total expenses increased \$1,055,353, or 3.3%, over the same period.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Water Board's basic financial statements. The Water Board's basic financial statements comprise of two components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The City uses an enterprise fund to account for the activities of the Water Board, which reports information about the general operations of the Water Board.

Basic financial statements—The basic financial statements are prepared using the accrual basis of accounting. The financial statements include:

The *statements of net position* present all of the Water Board's assets, liabilities, and deferred outflows and inflows of resources, with the differences reported as *net position*. Over time, increase and decreases in net position may serve as a useful indicator of whether the financial position of the Water Board is improving or deteriorating.

The *statements of revenues, expenses, and changes in net position* present information showing how the Water Board's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *statements of cash flows* provides information related to the sources of cash, the uses of cash, and the change in cash balances during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities.

These financial statements can be found on pages 12-14 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-28 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Water Board's progress in funding its obligation to provide post-employment benefits to its employees. Required Supplementary Information can be found on page 29 of this report.

Other supplementary information is presented immediately following the Required Supplementary Information and can be found on pages 30-36 of this report.

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report the net position of the Water Board and changes in them. Net position represents the difference between assets and deferred outflows of resources, and liabilities and is one way to measure financial health or financial position. Over time, increases or decreases in the Water Board's net position is one indicator of whether its financial health is improving or deteriorating.

Table 1, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 1—Condensed Statements of Net Position for the fiscal years ended June 30, 2014 and June 30, 2013

	June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Assets:				
Current assets	\$ 52,178,041	\$ 44,949,583	\$ 7,228,458	16.1
Capital assets	<u>129,959,064</u>	<u>130,042,712</u>	<u>(83,648)</u>	(0.1)
Total assets	<u>182,137,105</u>	<u>174,992,295</u>	<u>7,144,810</u>	4.1
Deferred outflows of resources	<u>1,816,216</u>	<u>3,228,952</u>	<u>(1,412,736)</u>	(43.8)
Liabilities:				
Current liabilities	13,350,861	11,918,823	1,432,038	12.0
Noncurrent liabilities	<u>124,152,101</u>	<u>127,084,363</u>	<u>(2,932,262)</u>	(2.3)
Total liabilities	<u>137,502,962</u>	<u>139,003,186</u>	<u>(1,500,224)</u>	(1.1)
Net position:				
Net investment in capital assets	11,536,770	8,914,136	2,622,634	29.4
Unrestricted	<u>34,913,589</u>	<u>30,303,925</u>	<u>4,609,664</u>	15.2
Total net position	<u>\$ 46,450,359</u>	<u>\$ 39,218,061</u>	<u>\$ 7,232,298</u>	18.4

The Condensed Statements of Net Position show an increase of \$7,232,298 in net position from \$39,218,061 at June 30, 2013 to \$46,450,359 at June 30, 2014. The increase is the direct result of current year operations as addressed in Table 3. Significant changes from 2013 to 2014 in the Condensed Statements of Net Position which netted to the increase are:

- Current assets increased \$7,228,458. The majority of the increase was in cash, which increased \$6,237,114 primarily due to increased cash received from customers, offset slightly by a decrease in net cash used for capital financing activities.
- Total deferred outflows of resources decreased by \$1,412,736 as a result of the change in derivative liability for the interest rate swap agreement.

Table 2, shown below, presents a condensed statement of net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2—Condensed Statements of Net Position for the fiscal years ended June 30, 2013 and June 30, 2012

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Assets:				
Current assets	\$ 44,949,583	\$ 36,677,629	\$ 8,271,954	22.6
Capital assets	<u>130,042,712</u>	<u>129,279,849</u>	<u>762,863</u>	0.6
Total assets	<u>174,992,295</u>	<u>165,957,478</u>	<u>9,034,817</u>	5.4
Deferred outflows of resources	<u>3,228,952</u>	<u>5,137,442</u>	<u>(1,908,490)</u>	(37.1)
Liabilities:				
Current liabilities	11,918,823	10,684,395	1,234,428	11.6
Noncurrent liabilities	<u>127,084,363</u>	<u>128,199,164</u>	<u>(1,114,801)</u>	(0.9)
Total liabilities	<u>139,003,186</u>	<u>138,883,559</u>	<u>119,627</u>	0.1
Net position:				
Net investment in capital assets	8,914,136	8,204,531	709,605	8.6
Unrestricted	<u>30,303,925</u>	<u>24,006,830</u>	<u>6,297,095</u>	26.2
Total net position	<u>\$ 39,218,061</u>	<u>\$ 32,211,361</u>	<u>\$ 7,006,700</u>	21.8

The Condensed Statements of Net Position show an increase of \$7,006,700 in net position from \$32,211,361 at June 30, 2012 to \$39,218,061 at June 30, 2013. The increase is the direct result of current year operations addressed in Table 4. Significant changes from 2012 to 2013 in the Condensed Statements of Net Position which netted to the increase are:

- Current assets increased \$8,271,954. The majority of the increase was in cash, which increased \$6,919,972 primarily due to increased cash received from customers, offset slightly by a decrease in net cash used for capital financing activities.
- Total deferred outflows of resources decreased by \$1,908,490 as a result of the change in derivative liability for the interest rate swap agreement.

Table 3, as presented below, shows changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 3—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2014 and June 20, 2013

	Year Ended June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Revenues:				
Operating	\$ 44,413,422	\$ 44,135,124	\$ 278,298	0.6
Nonoperating	1,143,238	942,996	200,242	21.2
Total revenues	<u>45,556,660</u>	<u>45,078,120</u>	<u>478,540</u>	1.1
Expenses:				
Services and supplies	9,259,852	8,508,815	751,037	8.8
Depreciation	4,949,048	4,851,160	97,888	2.0
Interest	6,759,811	7,093,430	(333,619)	(4.7)
Operating transfers	11,622,977	11,587,686	35,291	0.3
Other	324,048	879,256	(555,208)	(63.1)
Total expenses	<u>32,915,736</u>	<u>32,920,347</u>	<u>(4,611)</u>	(0.0)
Income before transfers to the City's General Fund	<u>12,640,924</u>	<u>12,157,773</u>	<u>483,151</u>	n/a
Transfers to the City's General Fund	<u>(5,408,626)</u>	<u>(5,151,073)</u>	<u>(257,553)</u>	5.0
Change in net position	7,232,298	7,006,700	225,598	n/a
Net position - beginning	<u>39,218,061</u>	<u>32,211,361</u>	<u>7,006,700</u>	21.8
Net position - ending	<u>\$ 46,450,359</u>	<u>\$ 39,218,061</u>	<u>\$ 7,232,298</u>	18.4

While the Condensed Statements of Net Position display the changes in the Water Board's financial position, the Condensed Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes.

Significant changes from the year ended June 30, 2013 to the year ended June 30, 2014 in revenue and expenses for the Water Board include the following:

- Nonoperating revenues increased \$200,242, or 21.2 percent. This is a result of a \$259,751 increase of federal subsidy for Build America Bonds, offset by a decrease in interest income of \$59,509.
- Services and supplies expenses increased \$751,037 or 8.8 percent, primarily caused by an increase in engineering/technical services and utilities.
- Other expenses decreased \$555,208 or 63.1 percent, primarily as a result decreased water meter purchases.

Table 4, as presented below, shows changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 4—Condensed Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2013 and June 20, 2012

	Year Ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Revenues:				
Operating	\$ 44,135,124	\$ 40,323,766	\$ 3,811,358	9.5
Nonoperating	942,996	874,322	68,674	7.9
Total revenues	<u>45,078,120</u>	<u>41,198,088</u>	<u>3,880,032</u>	9.4
Expenses:				
Services and supplies	8,508,815	8,121,871	386,944	4.8
Depreciation	4,851,160	4,372,760	478,400	10.9
Interest	7,093,430	6,726,016	367,414	5.5
Operating transfers	11,587,686	12,644,347	(1,056,661)	(8.4)
Other	879,256	-	879,256	0.0
Total expenses	<u>32,920,347</u>	<u>31,864,994</u>	<u>1,055,353</u>	3.3
Income before transfers to the City's General Fund	<u>12,157,773</u>	<u>9,333,094</u>	<u>2,824,679</u>	n/a
Transfers to the City's General Fund	<u>(5,151,073)</u>	<u>(4,904,446)</u>	<u>(246,627.00)</u>	5.0
Change in net position	7,006,700	4,428,648	2,578,052	n/a
Net position - beginning	<u>32,211,361</u>	<u>27,782,713</u>	<u>4,428,648</u>	15.9
Net position - ending	<u>\$ 39,218,061</u>	<u>\$ 32,211,361</u>	<u>\$ 7,006,700</u>	21.8

Significant changes from the year ended June 30, 2012 to the year ended June 30, 2013 in revenue and expenses for the Water Board include the following:

- Operating revenues increased \$3,811,358, or 9.5 percent, from the prior year. This change is primarily the result of a 6.0% rate increase effective July 1, 2012.
- Nonoperating revenues increased \$68,674 or 7.9 percent, this is a result of a \$218,015 increase of federal subsidy for Build America Bonds, offset by a decrease in interest income of \$149,341.
- Services and supplies expenses increased \$386,944, primarily caused by an increase in engineering/technical services and utilities.
- Depreciation expense increased by \$478,400 as a result of additional assets acquired during the year.

- Operating transfers decreased \$1,056,661, primarily as a result of the purchase of water meters being recognized by the Water Board in the current year. Previously, the purchase of water meters was borne by the City's Water Enterprise Fund.
- Other expenses increased \$879,256, primarily as a result of the water meters purchase as discussed immediately above.

Budgetary Highlights

Budgetary comparison schedules are presented as supplementary information.

Original budget compared to final budget—For the fiscal year ended June 30, 2014, the total of expenses and transfers out in the Water Board's 2013-2014 amended budget were \$2,330,023 greater than the original budget, which represents amounts re-appropriated for prior year encumbrances. The total of revenues and transfers in in the Water Board's 2013-2014 amended budget were \$1,676,000 greater than the original budget.

For the fiscal year ended June 30, 2013, the total of expenses and transfers out in the Water Board's 2012-2013 amended budget were \$114,955 greater than the original budget, which represents amounts re-appropriated for prior year encumbrances. There were no amendments to the budgeted revenues during 2013.

Final budget compared to actual results—A review of the actual revenues and estimated revenues for the fiscal year ended June 30, 2014 indicates that several revenues exceeded the budget. Comparing the final budget with actual results, total charges for services were \$2,739,233 greater than budget. Included within total charges for services is a favorable variance in meter rates of \$2,384,801. In addition, interest on meter flat rates was \$232,735 above budget due to slower collection of receivables. Nonoperating revenues, representing interest earnings, were \$25,856 less than budget. The federal subsidy for bond interest of \$512,152 resulted in a positive variance since the revenue was not included in the budget.

A review of the actual expenses and estimated expenses for the fiscal year ended June 30, 2014 indicates that certain expenses exceeded the budget. Comparing the final budget with actual results, total operating expenses, excluding operating transfers out, were \$1,890,491 more than budgeted. The significant deficit operating expenses budget variance for 2014 included depreciation of \$4,949,048. These expenses are not budgeted for annually, as water rates are not intended to cover the cost of non-cash expenses, which resulted in such negative variances. A positive budgetary variance of \$173,966 in transfers to the Division of Water resulted from fringe benefits being less than originally anticipated. Total nonoperating expenses exceeded budget by \$6,759,811; of this total, bond interest represents \$6,280,768 of the unfavorable variance. These interest amounts are included in the budget as transfers to the Authority, which shows a positive variance of \$16,599,053. This positive variance also includes amounts for principal and depreciation, which are budgeted for but not actually transferred.

A review of the actual revenues and estimated revenues for the fiscal year ended June 30, 2013 indicates that certain revenues exceeded the budget. Comparing the final budget with actual results, total charges for services were \$2,335,413 greater than budget. Included within total charges for services is a favorable variance in meter rates of \$1,718,600. The increase in water rates of 8.2%, which went into effect July 1, 2012, was primarily accountable for the larger revenues. In addition, interest on meter and flat rates was \$395,256 above budget due to slower collection of receivables, as well as the higher meter rates. Nonoperating revenues, representing interest earnings, were \$180,597 less than budget. The federal subsidy for bond interest of \$695,593 resulted in a positive variance since the revenue was not included in the budget.

A review of the actual expenses and estimated expenses for the fiscal year ended June 30, 2013 indicates that certain expenses exceeded the budget. Comparing the final budget with actual results, total operating expenses, excluding operating transfers out, were \$3,319,709 more than budgeted. The significant deficit operating expenses budget variance for 2013 included depreciation of \$4,851,160. These expenses are not budgeted for annually, as water rates are not intended to cover the cost of non-cash related expenses, which resulted in such negative variances. A positive budgetary variance of \$463,861 in transfers to the Division of Water resulted from fringe benefit costs being less than anticipated in the budget. Total nonoperating expenses exceeded budget by \$7,093,430; of this total, bond interest represents \$6,456,681 of the unfavorable variance. These interest amounts are included in the budget for transfers to the Authority, which shows a positive variance of \$16,610,109. This positive variance also includes amounts for principal and depreciation which are budgeted for but not actually transferred.

Capital Assets and Debt Administration

Capital assets—At June 30, 2014 and 2013, the Board had \$129,959,064 and \$130,042,712, respectively, invested in capital assets, as reflected in Table 5 below. At June 30, 2014, the change represents a net decrease of \$83,648, or 0.1 percent, from June 30, 2013, resulting from depreciation expense exceeding net additions. While at June 30, 2013, the change represents a net increase of \$762,863, or 0.6 percent, from June 30, 2012, which was primarily the result of building improvements at the Colonel Ward pumping station, rehabilitation of pumps at the filtration plant and infrastructure.

Table 5, as presented below, shows changes in capital assets for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 5—Summary of Capital Assets

	June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Land	\$ 145,116	\$ 145,116	\$ -	0.0
Construction in progress	1,017,192	986,048	31,144	3.2
Buildings and improvements	97,516,306	95,036,222	2,480,084	2.6
Machinery and equipment	140,411	528,268	(387,857)	(73.4)
Infrastructure	100,355,548	98,121,746	2,233,802	2.3
Total capital assets	199,174,573	194,817,400	4,357,173	2.2
Accumulated depreciation	(69,215,509)	(64,774,688)	(4,440,821)	6.9
Net capital assets	\$ 129,959,064	\$ 130,042,712	\$ (83,648)	(0.1)

	June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent (%)
Land	\$ 145,116	\$ 145,116	\$ -	0.0
Construction in progress	986,048	866,150	119,898	13.8
Buildings and improvements	95,036,222	91,517,664	3,518,558	3.8
Machinery and equipment	528,268	554,249	(25,981)	(4.7)
Infrastructure	98,121,746	96,146,180	1,975,566	2.1
Total capital assets	194,817,400	189,229,359	5,588,041	3.0
Accumulated depreciation	(64,774,688)	(59,949,510)	(4,825,178)	8.0
Net capital assets	\$ 130,042,712	\$ 129,279,849	\$ 762,863	0.6

Debt financing—All debt issued to finance the acquisition of capital assets for the Water Board was issued by the Water Authority or the City. The City had \$967,268 and \$1,268,405 of outstanding General Obligation Bonds at June 30, 2014 and 2013, respectively, which were issued to finance water projects. This debt will be fully paid in 2018. The Water Authority has \$152,105,000 and \$159,470,000 of Revenue Bonds outstanding at June 30, 2014 and 2013, respectively, which will be fully paid in 2040. The Water Board reports the liability for these bonds as Due to the Buffalo Municipal Water Finance Authority and Due to City of Buffalo Division of Water. The Water Board only reports the amount actually used (i.e., spent) for projects and the acquisition of capital assets, since unspent proceeds are maintained by the Water Authority. Amounts to pay the annual debt service costs are transferred from the Water Board to the appropriate entity. As the debt is paid, the outstanding liabilities to the other funds are reduced.

Additional information on the Water Board's long-term debt can be found in Note 8 to the financial statements.

Next Year's Budget

The Water Board's management considered many factors when setting the fiscal year 2015 budget for the Water Board. These factors include the expected growth in revenues and related costs as the result of both the contract with the private operator and personnel needs, as well as the long-term improvements to the water system.

Request for Information

This financial report is designed to provide a general overview of the Water Board's finances for all those with an interest in the Water Board's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York.

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BASIC FINANCIAL STATEMENTS

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Net Position
June 30, 2014 and 2013

	June 30,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 45,202,841	\$ 38,965,727
Accounts receivable—water (less allowance for doubtful accounts of \$15,102,217 and \$14,170,173 at June 30, 2014 and 2013, respectively)	5,693,354	4,796,657
Other receivables	932,825	841,759
Due from other agencies	127,425	127,425
Due from other governments	221,596	218,015
Total current assets	<u>52,178,041</u>	<u>44,949,583</u>
Noncurrent assets:		
Capital assets not being depreciated:		
Land	145,116	145,116
Construction in progress	1,017,192	986,048
Capital assets being depreciated:		
Buildings and improvements	97,516,306	95,036,222
Machinery and equipment	140,411	528,268
Infrastructure	100,355,548	98,121,746
Accumulated depreciation	<u>(69,215,509)</u>	<u>(64,774,688)</u>
Total capital assets being depreciated	<u>128,796,756</u>	<u>128,911,548</u>
Total noncurrent assets	<u>129,959,064</u>	<u>130,042,712</u>
Total assets	<u>182,137,105</u>	<u>174,992,295</u>
DEFERRED OUTFLOWS OF RESOURCES		
Change in value of derivative - interest rate swap	1,816,216	3,228,952
Total deferred outflows of resources	<u>1,816,216</u>	<u>3,228,952</u>
LIABILITIES		
Current liabilities:		
Accounts and retainages payable	2,850,187	2,234,623
Due to Buffalo Municipal Water Finance Authority	7,790,898	7,365,000
Due to City of Buffalo Division of Water	2,514,765	2,125,432
Due to City of Buffalo	195,011	193,768
Total current liabilities	<u>13,350,861</u>	<u>11,918,823</u>
Noncurrent liabilities:		
Accrued derivative liability	1,816,216	3,228,952
Due to Buffalo Municipal Water Finance Authority	109,664,128	112,495,171
Due to City of Buffalo Division of Water	12,671,757	11,360,240
Total noncurrent liabilities	<u>124,152,101</u>	<u>127,084,363</u>
Total liabilities	<u>137,502,962</u>	<u>139,003,186</u>
NET POSITION		
Net investment in capital assets	11,536,770	8,914,136
Unrestricted	<u>34,913,589</u>	<u>30,303,925</u>
Total net position	<u>\$ 46,450,359</u>	<u>\$ 39,218,061</u>

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	Year Ended June 30,	
	2014	2013
Operating revenues:		
Charges for services	\$ 44,162,233	\$ 44,045,399
Other	251,189	89,725
Total operating revenues	<u>44,413,422</u>	<u>44,135,124</u>
Operating expenses:		
Services and supplies	9,259,852	8,508,815
Depreciation	4,949,048	4,851,160
Other	324,048	879,256
Net operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	<u>11,622,977</u>	<u>11,587,686</u>
Total operating expenses	<u>26,155,925</u>	<u>25,826,917</u>
Operating income	18,257,497	18,308,207
Nonoperating revenues (expenses):		
Interest earnings	187,894	247,403
Interest expense	(6,759,811)	(7,093,430)
Other	<u>955,344</u>	<u>695,593</u>
Total nonoperating revenues (expenses)	<u>(5,616,573)</u>	<u>(6,150,434)</u>
Income before transfers to the City's General Fund	12,640,924	12,157,773
Transfers to the City's General Fund	<u>(5,408,626)</u>	<u>(5,151,073)</u>
Change in net position	7,232,298	7,006,700
Total net position—beginning	<u>39,218,061</u>	<u>32,211,361</u>
Total net position—ending	<u>\$ 46,450,359</u>	<u>\$ 39,218,061</u>

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 43,409,525	\$ 42,518,491
Operating transfers to the Buffalo Municipal Water Finance Authority and the City of Buffalo Division of Water	(11,622,980)	(11,587,686)
Payments to suppliers for goods and services	(8,426,930)	(7,716,201)
Net cash provided by operating activities	23,359,615	23,214,604
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to the City's General Fund	(5,408,626)	(5,151,073)
Advances from other funds	(703,055)	1,238,676
Net cash used for noncapital financing activities	(6,111,681)	(3,912,397)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition/construction of capital assets	(5,390,523)	(6,490,937)
Interest payments	(5,808,048)	(6,138,275)
Net cash used for capital and related financing activities	(11,198,571)	(12,629,212)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on short-term investments	187,751	246,977
Net cash provided by investing activities	187,751	246,977
Net increase in cash and cash equivalents	6,237,114	6,919,972
Cash and cash equivalents—beginning	38,965,727	32,045,755
Cash and cash equivalents—ending	\$ 45,202,841	\$ 38,965,727
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 18,257,497	\$ 18,308,207
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	4,949,048	4,851,160
Changes in assets and liabilities:		
Decrease in accounts receivable	4,024,400	4,199,240
(Decrease) in accounts and retainages payable	(3,871,330)	(4,144,003)
Net cash provided by operating activities	\$ 23,359,615	\$ 23,214,604

The notes to the financial statements are an integral part of these statements.

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Notes to the Financial Statements
Years Ended June 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Buffalo Water Board (the "Water Board"), a component unit of the City of Buffalo, New York (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (the "GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Water Board's accounting policies are described below.

Reporting Entity

The Buffalo Water Board (the "Water Board") is a public benefit corporation created pursuant to Section 1049 of Title 2-B of Article V of the New York State Public Authorities Law (the "Act"). According to the Act, the Water Board may establish rates and charges for water and related services to fund the costs of the operation, management, maintenance and repairs for the Buffalo Water System (the "Water System"). The Water Board is a blended component unit of the City of Buffalo, New York (the "City"), and as such, is included in the City's basic financial statements.

The Water Board acquired title to the Water System from the City for \$26,536,880 plus assumed liabilities of approximately \$31,000,000 in 1992. The transfer was recorded as its net book value. The Water Board also entered into an Operation Agreement with the City, contracting with the City of Buffalo Division of Water (the "Division of Water") to operate, manage and maintain the Water System. By an amendment dated August 1, 1997, the management of the operation and maintenance of the Water System is performed by a private contractor under contract to the Water Board (the "Private Operator"). The Water Board is responsible for generating sufficient revenues to meet the debt service requirements of the City related to the Water System.

The City and the Water Board entered into a Financing Agreement with the Buffalo Municipal Water Finance Authority (the "Water Authority") to ensure sufficient water rates are collected to fund the costs of operating and financing the Water System. The Water Authority issues bonds for the Water System and disburses funds to the Water Board as capital project expenditures are incurred. The Water Board transfers funds to the Water Authority to meet Water Authority debt service obligations. The operations of the Water Authority are solely of an administrative nature, facilitating the financing of the Water System's acquisition and construction improvements. As a result of the financing agreement between the City, the Water Authority and the Water Board, the bond issuance and interest costs are, from an economic standpoint, borne by the Water Board and, therefore, accounted for by the Water Board. Transfers from the Water Board fund the operating and administrative costs of the Water Authority. By an amendment dated August 1, 1997, the Water Authority amended the Financing Agreement with the Water Board and the City to allow the Water Board to engage a private contractor to manage the operation and maintenance of the Water System.

Amounts transferred to the Division of Water for Water System operations and to the Water Authority for its administrative costs are shown as direct operating expenses in the statement of revenues, expenses, and changes in net position.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

These financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses include the cost of services and supplies, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues, such as interest earnings, result from non-exchange transactions or ancillary activities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash, Cash Equivalents and Investments—Cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. The Water Board had no investments at June 30, 2014 and 2013; however, when the Water Board does have investments they are recorded at fair value based on quoted market value.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Water Board as assets with an initial, individual cost of more than \$10,000, and an estimated useful life in excess of five years, and all vehicles. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other capital assets of the Water Board are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Land improvements	10-20
Buildings	50
Building improvements	20
Infrastructure	40
Machinery and equipment	5

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. At June 30, 2014 and 2013, the Water Board reports a deferred outflow of resources of \$1,816,216 and \$3,228,952, respectively, for the change in the fair value of a hedging derivative from an interest rate swap agreement.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2014 and 2013, the Water Board does not have any items that qualify for reporting in this category.

Other

Allocated Costs—Certain services associated with operating the Water Board are performed by the City. During the years ended June 30, 2014 and 2013, the Water Board transferred \$5,408,626 and \$5,151,073, respectively, to the City related to these services.

Annual Budgets—Annual budgets are used as a management tool. The Water Board may amend the budget, but only in accordance with, and after receipt of, amended budget documents.

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

Reclassifications—Certain amounts from the prior year were reclassified to conform with the current year presentation. Additionally, certain amounts included in the City's Comprehensive Annual Financial Report for the year ended June 30, 2014 were reclassified to conform with the Water Board's presentation.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2014, the Water Board implemented GASB Statements No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB Statement No. 66 is to improve accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces GASB Statement No. 25 and Statement No. 50. The objective of GASB Statement No. 70 is to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements Nos. 66, 67 and 70 did not have a material impact on the Water Board's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Water Board has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, No. 69, *Government Combinations and Disposals of Government Operations*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the fiscal year ending June 30, 2015. The Water Board is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 68, 69 and 71 will have on its financial position and results of operations when such statements are adopted.

2. CASH AND CASH EQUIVALENTS

The Water Board’s policy is to obtain collateral for its cash deposits based on calculated average monthly balances for each bank in which the Water Board maintains cash deposits. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by FDIC insurance.

All deposits are carried at fair value and are classified by custodial credit risk at June 30, 2014 and 2013 as follows:

	June 30, 2014		June 30, 2013	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
FDIC insured	255,000	255,000	254,999	254,999
Uninsured:				
Collateral held by pledging bank's agent in Water Board's name	44,654,040	44,947,841	38,745,186	38,710,728
Total	<u>\$ 44,909,040</u>	<u>\$ 45,202,841</u>	<u>\$ 39,000,185</u>	<u>\$ 38,965,727</u>

Custodial Credit Risk—Custodial credit risk is the risk that in the event of a bank failure, the Water Board’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of June 30, 2014 and 2013, the Water Board’s deposits were FDIC insured or collateralized.

Investments—When investing, the Water Board generally acquires investments through trust departments of commercial banks and requires that the investments be held in the Water Board’s name and be collateralized. At June 30, 2014 and 2013, the Water Board does not have any investments.

3. RECEIVABLES

Receivables as of year-end for the Water Board, and related allowance for uncollectible accounts, as of June 30, 2014 and 2013, are as follows:

	June 30, 2014		
	Receivable	Allowance	Net
Accounts receivable—water	\$ 20,795,571	\$ (15,102,217)	\$ 5,693,354
Other receivables	932,825	-	932,825
Due from other agencies	127,425	-	127,425
Intergovernmental receivables	<u>221,596</u>	<u>-</u>	<u>221,596</u>
	<u>\$ 22,077,417</u>	<u>\$ (15,102,217)</u>	<u>\$ 6,975,200</u>

	June 30, 2013		
	Receivable	Allowance	Net
Accounts receivable—water	\$ 18,966,830	\$ (14,170,173)	\$ 4,796,657
Other receivables	841,759	-	841,759
Due from other agencies	127,425	-	127,425
Intergovernmental receivables	<u>218,015</u>	<u>-</u>	<u>218,015</u>
	<u>\$ 20,154,029</u>	<u>\$ (14,170,173)</u>	<u>\$ 5,983,856</u>

4. CAPITAL ASSETS

A summary of capital assets activity for the fiscal years ended June 30, 2014 and 2013 are as follows:

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	986,048	4,454,029	(4,422,885)	1,017,192
Total capital assets, not being depreciated	<u>1,131,164</u>	<u>4,454,029</u>	<u>(4,422,885)</u>	<u>1,162,308</u>
Capital assets, being depreciated:				
Buildings and improvements	95,036,222	2,480,084	-	97,516,306
Machinery and equipment	528,268	120,369	(508,226)	140,411
Infrastructure	98,121,746	2,233,802	-	100,355,548
Total capital assets, being depreciated	<u>193,686,236</u>	<u>4,834,255</u>	<u>(508,226)</u>	<u>198,012,265</u>
Less accumulated depreciation for:				
Buildings and improvements	20,744,397	2,388,615	-	23,133,012
Machinery and equipment	454,964	62,581	(508,226)	9,319
Infrastructure	43,575,327	2,497,851	-	46,073,178
Total accumulated depreciation	<u>64,774,688</u>	<u>4,949,047</u>	<u>(508,226)</u>	<u>69,215,509</u>
Total capital assets being depreciated, net	<u>128,911,548</u>	<u>(114,792)</u>	<u>-</u>	<u>128,796,756</u>
Capital assets, net	<u>\$ 130,042,712</u>	<u>\$ 4,339,237</u>	<u>\$ (4,422,885)</u>	<u>\$ 129,959,064</u>
	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
Capital assets, not being depreciated:				
Land	\$ 145,116	\$ -	\$ -	\$ 145,116
Construction in progress	866,148	6,507,437	(6,387,537)	986,048
Total capital assets, not being depreciated	<u>1,011,264</u>	<u>6,507,437</u>	<u>(6,387,537)</u>	<u>1,131,164</u>
Capital assets, being depreciated:				
Buildings and improvements	91,517,665	3,518,557	-	95,036,222
Machinery and equipment	554,249	-	(25,981)	528,268
Infrastructure	96,146,180	1,975,566	-	98,121,746
Total capital assets, being depreciated	<u>188,218,094</u>	<u>5,494,123</u>	<u>(25,981)</u>	<u>193,686,236</u>
Less accumulated depreciation for:				
Buildings and improvements	18,522,244	2,222,153	-	20,744,397
Machinery and equipment	328,764	152,181	(25,981)	454,964
Infrastructure	41,098,501	2,476,826	-	43,575,327
Total accumulated depreciation	<u>59,949,509</u>	<u>4,851,160</u>	<u>(25,981)</u>	<u>64,774,688</u>
Total capital assets being depreciated, net	<u>128,268,585</u>	<u>642,963</u>	<u>-</u>	<u>128,911,548</u>
Capital assets, net	<u>\$ 129,279,849</u>	<u>\$ 7,150,400</u>	<u>\$ (6,387,537)</u>	<u>\$ 130,042,712</u>

5. PENSION PLANS

Plan Description—The Water Board participates in the New York State and Local Employees’ Retirement System (“ERS”) and the Public Employees’ Group Life Insurance Plan (the “Systems”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (the “Comptroller”) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the Systems and for custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory, except for employees who joined the ERS after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS), who generally contribute three percent (3%) of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute a percentage ranging from three percent (3%) to six percent (6%), based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the Systems’ fiscal year ending March 31.

The Water Board is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

<u>Year Ended June 30,</u>	<u>ERS</u>
2014	\$ 234,450
2013	239,325
2012	239,593

Legislation requires participating employers to make payments on a current basis. The Water Board’s contributions made to the Systems were equal to 100 percent of the contributions required for each year, and the Water Board has not bonded or amortized any of the excess amounts.

6. OTHER POST-EMPLOYMENT BENEFIT (“OPEB”) OBLIGATIONS

The liability for other post-employment benefits of the current and retired employees of the Division of Water is included in the amount Due to the City of Buffalo Division of Water.

In adopting the provisions of GASB, the City has opted to implement this statement prospectively. GASB states that post-employment benefits are part of an exchange of salaries and benefits for employee services rendered, and from an accrual perspective, the cost of OPEB should be recognized when the related services are received by the employer. The City recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City’s future cash flows. Recognition of the liability accumulated prior to July 1, 2007 will be amortized over 30 years, commencing with the 2008 liability.

Plan Description—The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least ten years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive healthcare coverage for the life of the retiree. The retiree’s share of premium costs depends on the employee group and length of service. Healthcare benefits for nonunion employees are similar to those of union employees pursuant to City Charter.

The number of participants covered by the Water Board as of July 1, 2012, the effective date of the most recent biennial OPEB valuation, is as follows. There have been no significant changes in the number of employees covered.

Active employees	91
Retired employees	<u>86</u>
Total	<u>177</u>

Funding Policy—Post-employment benefits are financed on a pay-as-you-go basis.

Annual OPEB Benefit Cost—For the years ended June 30, 2014 and 2013, the Water Board’s annual OPEB cost (expense) was approximately \$2,983,000 and \$2,876,000, respectively, while the annual required contribution was approximately \$2,973,600 and \$2,868,000, respectively. Considering the annual expense as well as payment for current health insurance premiums, which totaled approximately \$1,629,000 and \$1,448,000 for the years ended June 30, 2014 and 2013, respectively, for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$1,354,000 and \$1,428,000 for the years ended June 30, 2014 and 2013, respectively.

The table on the following page shows the components of the Water Board’s annual OPEB cost, the amount actually contributed to the plan, and the changes in the City’s net OPEB obligation.

	Year Ended June 30,	
	2014	2013
Annual OPEB Cost and Net OPEB Obligation		
Actuarial accrued liability ("AAL")	\$ 42,305,200	\$ 42,305,200
Unfunded actuarial accrued liability ("UAAL")	\$ 42,305,200	\$ 42,305,200
Normal cost—beginning of the year	\$ 1,195,200	\$ 1,195,200
Amortization factor based on 30 years	26.2	26.2
Annual covered payroll	\$ 6,339,914	\$ 6,339,914
UAAL as a percentage of covered payroll	667.28%	667.28%
Level Dollar Amortization		
Calculation of ARC Under Projected Unit Credit Method		
ARC normal cost with interest—end of year	\$ 2,973,600	\$ 2,868,000
Interest	-	-
Annual required contribution ("ARC")	2,973,600	2,868,000
Interest on net OPEB obligation	361,880	304,760
Adjustment to ARC	(352,480)	(296,760)
Annual OPEB cost (expense)	2,983,000	2,876,000
Contribution for years ended June 30, 2014 and 2013	(1,629,000)	(1,448,000)
Increase in net OPEB obligation	1,354,000	1,428,000
Net OPEB obligation—beginning	9,047,000	7,619,000
Net OPEB obligation—ending	\$ 10,401,000	\$ 9,047,000

Funded Status and Funding Progress—As of July 1, 2012, the most recent actuarial valuation date, the OPEB plan for the Water Enterprise Fund was unfunded, resulting in an unfunded accrued liability of \$42,305,200.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The Water Board’s schedule of contributions for the most recent three years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
2014	\$ 2,983,000	\$ 1,629,000	55%	\$ 10,401,000
2013	2,876,000	1,448,000	50%	9,047,000
2012	3,119,000	1,212,000	39%	7,619,000

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. Included coverage plans are “experience-rated” and annual premiums for experience-rated coverage plans were used as a proxy for claims costs with age adjustment for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized on an open amortization basis over 30 years on a level percentage of pay. Retiree contributions were assumed to increase in the future in accordance with the assumed increases in pre-65 medical costs.

In the July 1, 2012 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4.0% investment rate of return, and is based on the projected long-term earning rate of the assets expected to be available to pay benefits. The payroll growth for total payroll is assumed to be 3.0%. The valuation assumes healthcare cost trends as follows: both pre-65 and post-65 medical and prescription, 8.8%; all reduced by decrements to reach a rate of 4.5% in 2082.

Medical Reimbursements—The City’s Medicare Part D prescription drug subsidy, which reduces the cost of retiree healthcare premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liabilities.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

7. RISK MANAGEMENT

The City is self-insured for workers’ compensation and has accrued its best estimate of both asserted and unasserted workers’ compensation losses, primarily based on actuarially determined amounts. The estimated liability for the Water System is recorded as a liability in the Division of Water. This liability (including incurred but not reported) is recorded at an estimated present value using a discount rate of 5% and totaled \$750,827 and \$679,153 at June 30, 2014 and 2013, respectively.

8. DUE TO THE BUFFALO MUNICIPAL WATER FINANCE AUTHORITY AND CITY OF BUFFALO DIVISION OF WATER

Shown below and on the following pages are the amounts due to the Water Authority and the City of Buffalo Division of Water (the “City” related to the water system) as of June 30, 2014. Amounts due to the Water Authority represent the future debt service requirements of the long-term bonded debt of the Water Authority which will be funded through operating transfers by the Water Board. Amounts due to the City Division of Water includes future debt service requirements, accrued retirement incentive costs, accrued compensated absences costs, accrued workers’ compensation costs, accrued other post-employment benefits and other payables. The long-term bonded debt instruments are general obligation and revenue bonds, which are backed by the full faith and credit of the City and the Water Authority, respectively. Interest is paid semi-annually. Principal is paid annually.

Revenue Bonded Debt—The total revenue bonded debt as financed through the Water Authority at June 30, 2014, is as follows:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2013	Additions	Payments	Balance 6/30/2014	Due Within One Year
2002	\$ 11,785,000	2.5-4.8	2018	\$ 1,580,000	\$ -	\$ 290,000	\$ 1,290,000	\$ 300,000
2003	3,901,741	5.6-6.3	2031	350,000	-	110,000	240,000	115,000
2006	19,917,236	3.6-4.8	2028	14,745,000	-	790,000	13,955,000	815,000
2007	13,010,000	3.6-4.4	2038	11,780,000	-	275,000	11,505,000	285,000
2007	29,220,000	5.0	2027	28,900,000	-	3,440,000	25,460,000	3,610,000
2008	62,020,000	3.7-5.1	2036	57,055,000	-	1,410,000	55,645,000	1,435,000
2010	23,975,000	2.0-6.9	2040	23,045,000	-	480,000	22,565,000	490,000
2011	2,720,000	1.5-5.1	2022	2,290,000	-	225,000	2,065,000	230,000
2012	17,150,000	1.8-4.0	2037	17,150,000	-	345,000	16,805,000	355,000
2012	2,575,000	5.6-6.3	2031	2,575,000	-	-	2,575,000	-
Total				159,470,000	-	7,365,000	152,105,000	7,635,000
Unamortized bond premium				940,155	-	193,171	746,984	165,710
Unamortized bond discount				(253,229)	-	(9,812)	(243,417)	(9,812)
Net bonded debt				<u>\$ 160,156,926</u>	<u>\$ -</u>	<u>\$ 7,548,359</u>	<u>\$ 152,608,567</u>	<u>\$ 7,790,898</u>

The Authority advances the proceeds of the revenue bonded debt to the Water Board as the related expense is incurred by the Board. Accordingly, the amount due from the Water Board will generally differ from the outstanding obligations at year-end. The amount of proceeds expended net of principal payments made as of June 30, 2014, was \$125,609,242 (which represents the outstanding proceeds of \$152,105,000, net of the unexpended funds of \$26,495,758 still held by the Authority). Additionally, the Water Authority owes the Water Board \$8,154,216 as of June 30, 2014, for interest earned on funds held by the trustee and excess debt service reserve funds. The net amount owed by the Water Board to the Authority totals \$117,455,026, of which \$7,790,898 is recorded as a current asset and \$109,664,128 as a noncurrent asset.

The amount of proceeds expended net of principal payments made as of June 30, 2013, was \$128,075,894 (which represents the outstanding proceeds of \$159,470,000, net of the unexpended funds of \$31,394,106 still held by the Authority). Additionally, the Water Authority owes the Water Board \$8,215,723 as of June 30, 2013, for interest earned on funds held by the trustee, unamortized refunding costs and excess debt service reserve funds. The net amount owed by the Board to the

Authority totals \$119,860,171, of which \$7,365,000 is recorded as a current asset and \$112,495,171 as a noncurrent asset.

Remaining annual maturities on long-term obligations of the Buffalo Municipal Water Finance Authority at June 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 7,635,000	\$ 6,584,132
2016	7,990,000	6,265,638
2017	8,355,000	5,917,510
2018	8,645,000	5,535,457
2019	9,045,000	5,147,444
2020-2024	35,310,000	20,811,744
2025-2029	36,635,000	13,442,011
2030-2034	19,070,000	6,995,224
2035-2039	15,360,000	3,327,612
2040-2043	<u>4,060,000</u>	<u>475,531</u>
Total	<u>\$ 152,105,000</u>	<u>\$ 74,502,303</u>

Accrued Derivative Liability—On May 9, 2008, the Authority issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously existing debt. The Authority refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the Water System and Citibank, N.A, NY (“Swap Provider”) that converts the Authority’s variable-rate exposure relating to the Series 2008A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008A Bonds. Under the terms of the Swap Agreement, the Water System will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the Water System a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the Water System under the Swap Agreement does not affect the Authority’s obligation to pay, when due, the principal and interest on the Series 2008A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005B Bonds on July 1, 2035. The Water System entered into this swap agreement to hedge its interest rate exposure over the life of the bonds. Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the Water System or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The Water System shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2014, the notional amount of the bonds is \$55,175,000. The amount that the Authority received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$63,539, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$32,273, by \$31,266. At June 30, 2013, the amount that the Authority received from the Swap Provider (a variable-rate payment equal to 70% of one-month LIBOR), \$85,063, exceeded the variable rate paid by the Authority (variable rate demand obligation) to the Swap Provider, \$75,273, by \$9,790. The fair

value of the derivative at June 30, 2014 based on quoted market prices is negative \$1,816,216, and is recorded as a derivative liability within the noncurrent liabilities on the Board's financial statements.

General Bonded Debt—Total general bonded debt as financed through the City of Buffalo, Division of Water at June 30, 2014 is as follows:

Year of Issuance	Original Issue	Interest Rate (%)	Year of Maturity	Balance 7/1/2013	Additions	Payments	Balance 6/30/2014	Due Within One Year
2005	\$ 6,552,147	5.0	2018	<u>\$ 1,268,405</u>	<u>\$ -</u>	<u>\$ 301,137</u>	<u>\$ 967,268</u>	<u>\$ 315,852</u>

Due to the City of Buffalo Division of Water:

Fiscal Year	Bonds	Due to Retirement System	Compensated Absences*	Workers' Compensation*	Other Post-Employment Benefits*	Other Payables	Total
2015	\$ 315,852	\$ 234,450	\$ 62,991	\$ 122,549	\$ -	\$ 1,778,923	\$ 2,514,765
2016	331,797	-	-	-	-	35,043	366,840
2017	152,152	-	-	-	-	16,800	168,952
2018	167,467	-	-	-	-	8,366	175,833
2019-beyond	-	-	679,381	628,278	10,401,000	251,473	11,960,132
Total	<u>\$ 967,268</u>	<u>\$ 234,450</u>	<u>\$ 742,372</u>	<u>\$ 750,827</u>	<u>\$ 10,401,000</u>	<u>\$ 2,090,605</u>	<u>\$ 15,186,522</u>

* Payment of the long-term portion of compensated absences, workers' compensation and other post-employment benefits are dependent upon many factors, therefore, timing of future payments is not readily determinable.

The table below shows annual interest payments due on bonded debt at June 30, 2014:

Fiscal Year	Water Authority	Division of Water
2015	\$ 6,584,132	\$ 48,363
2016	6,265,638	32,571
2017	5,917,510	15,981
2018	5,535,457	8,373
2019	5,147,444	-
2020-2024	20,811,744	-
2025-2029	13,442,011	-
2030-2034	6,995,224	-
2035-2039	3,327,612	-
2040-2043	475,531	-
	<u>\$ 74,502,303</u>	<u>\$ 105,288</u>

Due to Retirement Systems—Represents amounts due to the New York State and Local Employees Retirement System ("ERS") for retirement contributions for wages paid through June 30, 2014. Due to retirement systems was \$234,450 and \$239,325 at June 30, 2014 and 2013.

Compensated Absences—Compensated absences represent amounts relating to sick and personal leave for Division of Water employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and; therefore, payment of such is not readily determinable. Accrued compensated absences amounted to \$742,372 and \$749,673 at June 30, 2014 and 2013, respectively.

Summary of Changes of Amounts Due to the Buffalo Municipal Water Finance Authority and City of Buffalo Division of Water—The following is a summary of changes in amounts due to Buffalo Municipal Water Authority and City of Buffalo Division of Water:

	<u>Balance</u> <u>7/1/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2014</u>	<u>Due Within</u> <u>One Year</u>
Due to Buffalo Municipal Water Finance Authority	\$ 119,860,171	\$ 5,143,214	\$ 7,548,359	\$ 117,455,026	\$ 7,790,898
Due to City of Buffalo Division of Water	<u>13,485,682</u>	<u>3,826,272</u>	<u>2,125,432</u>	<u>15,186,522</u>	<u>1,699,534</u>
Total	<u>\$ 133,345,853</u>	<u>\$ 8,969,486</u>	<u>\$ 9,673,791</u>	<u>\$ 132,641,548</u>	<u>\$ 9,490,432</u>

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2014, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTARY
INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2012	\$ -	\$ 42,305,200	\$ 42,305,200	0.0%	\$ 6,339,914	667.3%
7/1/2010	-	43,295,900	43,295,900	0.0%	5,975,977	724.5%
7/1/2008	-	32,153,800	32,153,800	0.0%	6,089,858	528.0%

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SUPPLEMENTARY INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD

A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES:				
Charges for services:				
Meter rates	\$ 34,200,000	\$ 34,200,000	\$ 36,584,801	\$ 2,384,801
Flat rates	4,500,000	4,500,000	5,018,382	518,382
Charges for collection services	100,000	100,000	59,795	(40,205)
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	63,000	63,000	80,665	17,665
General labor and supplies	270,000	270,000	239,173	(30,827)
Utility turn-on fees	200,000	200,000	149,806	(50,194)
Installation of corporation cocks	100,000	100,000	88,375	(11,625)
Installation and repair of meters	55,000	55,000	181,064	126,064
Interest on meter rates receivable	978,240	978,240	573,151	(405,089)
Interest on flat rates receivable	355,000	355,000	587,735	232,735
Miscellaneous	92,060	92,060	89,586	(2,474)
Total charges for services	<u>41,423,000</u>	<u>41,423,000</u>	<u>44,162,233</u>	<u>2,739,233</u>
Other revenues:				
Miscellaneous	2,480,310	4,156,310	251,189	(3,905,121)
Total other revenues	<u>2,480,310</u>	<u>4,156,310</u>	<u>251,189</u>	<u>(3,905,121)</u>
Total operating revenues	<u>43,903,310</u>	<u>45,579,310</u>	<u>44,413,422</u>	<u>(1,165,888)</u>
OPERATING EXPENSES:				
Service and supplies:				
Services	3,244,390	4,629,825	3,354,315	1,275,510
Payment to operator	5,905,537	5,905,537	5,905,537	-
Reserve for uncollected receivables	500,000	500,000	-	500,000
Operating transfers to:				
City of Buffalo Division of Water	11,287,311	11,287,311	11,113,342	173,969
Water Authority	17,108,688	17,108,688	509,635	16,599,053
Total service and supplies	<u>38,045,926</u>	<u>39,431,361</u>	<u>20,882,829</u>	<u>18,548,532</u>
Other:				
Depreciation	-	-	4,949,048	(4,949,048)
Capital outlay	662,507	1,607,095	324,048	1,283,047
Total other	<u>662,507</u>	<u>1,607,095</u>	<u>5,273,096</u>	<u>(3,666,001)</u>
Total operating expenses	<u>38,708,433</u>	<u>41,038,456</u>	<u>26,155,925</u>	<u>14,882,531</u>
Operating income	<u>5,194,877</u>	<u>4,540,854</u>	<u>18,257,497</u>	<u>13,716,643</u>

(continued)

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
NONOPERATING REVENUES (EXPENSES):				
Interest earnings	213,750	213,750	187,894	(25,856)
Interest expense	-	-	(6,759,811)	(6,759,811)
Bond interest subsidy	-	-	443,192	443,192
NYS ERDA grant	-	-	512,152	512,152
Total nonoperating revenues (expenses)	<u>213,750</u>	<u>213,750</u>	<u>(5,616,573)</u>	<u>(5,830,323)</u>
Excess of revenues over expenses	<u>5,408,627</u>	<u>4,754,604</u>	<u>12,640,924</u>	<u>7,886,320</u>
OTHER FINANCING USES:				
Transfers out:				
City of Buffalo's General Fund	<u>(5,408,627)</u>	<u>(5,408,627)</u>	<u>(5,408,626)</u>	<u>1</u>
Total other financing uses	<u>(5,408,627)</u>	<u>(5,408,627)</u>	<u>(5,408,626)</u>	<u>1</u>
Change in net position	-	(654,023)	7,232,298	7,886,321
Net position—beginning	<u>39,218,061</u>	<u>39,218,061</u>	<u>39,218,061</u>	<u>-</u>
Net position—ending	<u>\$ 39,218,061</u>	<u>\$ 38,564,038</u>	<u>\$ 46,450,359</u>	<u>\$ 7,886,321</u>

(concluded)

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD

A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES:				
Charges for services:				
Meter rates	\$ 34,409,371	\$ 34,409,371	\$ 36,127,971	\$ 1,718,600
Flat rates	4,899,815	4,899,815	4,798,676	(101,139)
Charges for collection services	100,000	100,000	74,375	(25,625)
Buffalo Sewer Authority	509,700	509,700	509,700	-
Hydrant rates	63,000	63,000	93,180	30,180
General labor and supplies	200,000	200,000	184,657	(15,343)
Utility turn-on fees	200,000	200,000	174,556	(25,444)
Installation of corporation cocks	85,000	85,000	65,193	(19,807)
Installation and repair of meters	51,000	51,000	127,812	76,812
Interest on meter rates receivable	785,000	785,000	1,332,642	547,642
Interest on flat rates receivable	300,000	300,000	447,614	147,614
Miscellaneous	107,100	107,100	109,023	1,923
Total charges for services	<u>41,709,986</u>	<u>41,709,986</u>	<u>44,045,399</u>	<u>2,335,413</u>
Other revenues:				
Miscellaneous	236,000	236,000	89,725	(146,275)
Total other revenues	<u>236,000</u>	<u>236,000</u>	<u>89,725</u>	<u>(146,275)</u>
Total operating revenues	<u>41,945,986</u>	<u>41,945,986</u>	<u>44,135,124</u>	<u>2,189,138</u>
OPERATING EXPENSES:				
Service and supplies:				
Services	3,290,917	3,405,872	3,139,165	266,707
Payment to operator	5,369,650	5,369,650	5,369,650	-
Reserve for uncollected receivables	500,000	500,000	-	500,000
Operating transfers to:				
City of Buffalo Division of Water	11,461,788	11,461,788	10,997,927	463,861
Water Authority	17,199,868	17,199,868	589,759	16,610,109
Total service and supplies	<u>37,822,223</u>	<u>37,937,178</u>	<u>20,096,501</u>	<u>17,840,677</u>
Other:				
Depreciation	-	-	4,851,160	(4,851,160)
Capital outlay	1,644,000	1,644,000	879,256	764,744
Total other	<u>1,644,000</u>	<u>1,644,000</u>	<u>5,730,416</u>	<u>(4,086,416)</u>
Total operating expenses	<u>39,466,223</u>	<u>39,581,178</u>	<u>25,826,917</u>	<u>13,754,261</u>
Operating income	<u>2,479,763</u>	<u>2,364,808</u>	<u>18,308,207</u>	<u>15,943,399</u>

(continued)

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Schedule of Revenues, Expenses and Changes in Net Position—Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Budgetary Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
NONOPERATING REVENUES (EXPENSES):				
Interest earnings	428,000	428,000	247,403	(180,597)
Authority bond interest expense	-	-	(7,093,430)	(7,093,430)
Bond interest subsidy	-	-	695,593	695,593
Total nonoperating revenues (expenses)	<u>428,000</u>	<u>428,000</u>	<u>(6,150,434)</u>	<u>(6,578,434)</u>
Excess of revenues over expenses	<u>2,907,763</u>	<u>2,792,808</u>	<u>12,157,773</u>	<u>9,364,965</u>
OTHER FINANCING USES:				
Transfers out:				
City of Buffalo's General Fund	<u>(5,151,073)</u>	<u>(5,151,073)</u>	<u>(5,151,073)</u>	-
Total other financing uses	<u>(5,151,073)</u>	<u>(5,151,073)</u>	<u>(5,151,073)</u>	-
Change in net position	(2,243,310)	(2,358,265)	7,006,700	9,364,965
Net position—beginning	<u>32,211,361</u>	<u>32,211,361</u>	<u>32,211,361</u>	-
Net position—ending	<u>\$ 29,968,051</u>	<u>\$ 29,853,096</u>	<u>\$ 39,218,061</u>	<u>\$ 9,364,965</u>

(concluded)

OTHER INFORMATION

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CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Summary of Water Rate Changes
Last Five Fiscal Years

Effective Date	Metered Rate Bills	
	Regular (\$)	Percent Change (%)
July 1, 2009	18.99 per 1,000 cubic feet	-
July 1, 2010	20.22 per 1,000 cubic feet	6.5
July 1, 2011	21.54 per 1,000 cubic feet	6.5
July 1, 2012	22.83 per 1,000 cubic feet	6.0
July 1, 2013	22.83 per 1,000 cubic feet	-

Source: Division of Water

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Summary of Water Billings and Collections
Last Five Fiscal Years

FLAT RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings (%)
2010	\$ 4,005,810	\$ 4,317,502	107.8
2011	4,283,447	4,378,073	102.2
2012	4,645,749	4,238,228	91.2
2013	4,823,640	4,906,826	101.7
2014	4,870,453	4,669,594	95.9

METER RATE ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings (%)
2010	\$ 28,270,688	\$ 27,852,336	98.5
2011	30,997,452	26,005,348	83.9
2012	34,016,944	33,959,144	99.8
2013	36,143,865	34,995,683	96.8
2014	36,737,463	35,954,695	97.9

ALL ACCOUNTS

Years Ended June 30,	Water Billing	Total Collections	Percent of Total Collections to Total Current Billings (%)
2010	\$ 32,276,498	\$ 32,169,838	99.7
2011	35,280,899	30,383,421	86.1
2012	38,662,693	38,197,372	98.8
2013	40,967,505	39,902,509	97.4
2014	41,607,916	40,624,289	97.6

Source: Division of Water

CITY OF BUFFALO, NEW YORK
BUFFALO WATER BOARD
A COMPONENT UNIT OF THE CITY OF BUFFALO, NEW YORK
Top Ten Accounts By Usage
Current Fiscal Year

Accounts	Usage (per Cubic Foot)	Charges
Aurubis Buffalo Inc.	55,690,500	\$ 959,957
Buffalo Sewer Authority	32,568,535	564,925
Buffalo Municipal Housing Authority	31,253,451	654,602
Erie County Medical Center	24,794,265	445,461
Sorrento Lactalis, Inc.	22,839,500	388,203
Tyson Foods	18,518,050	310,733
Roswell Park	18,393,225	389,738
Erie County Water Authority	12,055,000	153,418
VA Financial Services Center	11,686,690	206,301
Buffalo State College	11,582,500	222,701

Source: Veolia Water Service

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APPENDIX B

ENGINEERING REPORT - 2015 EVALUATION OF THE BUFFALO WATER SYSTEM

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Engineering Report 2015 Evaluation of the Buffalo Water System

Prepared for: Buffalo Municipal Water Finance Authority
Buffalo, New York

CRA Infrastructure & Engineering, Inc.
285 Delaware Avenue, Suite 500
Buffalo, New York 14202

May 2015 • 631145 • Report No. 1



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Section 1.0 Background

1.1 Introduction

The purpose of this Report is to provide an engineering opinion regarding the ability of the following organizations to operate and maintain the City of Buffalo Water System (the "System") in a manner that provides the necessary services to the water customers in Buffalo, New York (the "City"):

- Buffalo Municipal Water Finance Authority (the "Authority"), the entity that provides System financing;
- Buffalo Water Board (the "Board"), the entity charged with operating the System;
- The City of Buffalo Division of Water (the "Division of Water") (the Board uses certain Division of Water employees to meet its obligations); and
- Veolia Water North America-Northeast, LLC ("Veolia Water"), a private company that provides certain management services to the Board.

Furthermore, this Report provides an engineering opinion regarding the ability of the System to provide a safe and adequate water supply to water customers in the City of Buffalo. CRA Infrastructure & Engineering, Inc., consulting engineer to the Board ("CRA" or the "Consulting Engineer"), prepared this Report based on information and observations from the past 12 months.

CRA prepared this Report in connection with the proposed issuance by the Authority of its approximately \$50 million Water System Revenue Refunding Bonds, Series 2015-A (the "Bonds"). In particular, this Report satisfies certain requirements set forth in the Authority's Water System General Revenue Bond Resolution (the "General Resolution"), as amended by its Twenty-Eighth Supplemental Water System Revenue Refunding Bond Resolution (the "Supplemental Resolution" and together with the General Resolution, the "Resolution"). Please note that Lisa A. Foti, CPA (the "Rate Consultant") will address certain other requirements of the Resolution and the financing documents, including debt service coverage, rate projections and detailed financial reviews.

The Bonds will be used to finance certain System improvements in accordance with the Capital Improvement Plan ("CIP") periodically approved by the Board. The current CIP includes an estimated \$77,960,000 of capital improvements anticipated to be expended during the fiscal years of 2014/2015 through 2019/2020. A summary of the complete CIP is shown in Table 6.1.

1.2 Methodology

CRA personnel have performed numerous site visits, desktop audits and operational reviews, and have conducted interviews with various System managers and staff. CRA observed and/or examined certain System facilities and various operation and maintenance (“O&M”) practices to confirm the Board’s ability to meet future demands. Although the System Evaluation detailed in this Report includes data from City staff and Veolia Water, the conclusions of this Report are solely those of CRA.

After completing its reviews and observations, CRA has rated the System based on three possible rating categories. The rating categories are consistent with those used in previous System evaluations, and are defined as follows:

- Sufficient

The current system can meet current and future water demands. The owner can maintain operations at current levels using only typical maintenance practices and capital improvements consistent with the age and type of facilities.

- Limited

The current system is functional; however, it requires enhanced maintenance and/or capital improvements to maintain current service levels and satisfy future demands.

- Insufficient

The current system is functionally deficient at meeting current demand. Major renovation of the system is required to restore the system to an acceptable operating level.

1.3 Consulting Engineer

CRA is a global consulting firm with around 3,200 employees worldwide. Between its Buffalo, Rochester, Syracuse and Niagara Falls offices, CRA employs a total of 210 employees, including 24 professional engineers. Firm personnel include civil, sanitary, environmental, structural, and electrical engineers; CADD and survey technicians; municipal management and financial planners; estimators; and construction administration and inspection specialists.

CRA has provided study, design, and construction services for hundreds of clients nationally and internationally. It has completed water treatment and supply projects for hundreds of clients. Clients in the western New York region have included, but are not limited to, the Erie County Water Authority; the Niagara County Water District; the City and Town of Tonawanda; the City

of Syracuse; the City of Auburn; the City of Batavia; the Niagara Falls Water Board; the City of Lockport; and the Towns of Eden and Aurora. CRA's services include water system audits, metering studies, computer modeling, water quality studies, business efficiency reviews, new and renovated water treatment systems, pumping stations, storage facilities, transmission mains and distribution networks. The firm has provided technical assistance and/or fiscal planning for water system improvements valued at hundreds of millions of dollars.

CRA has completed numerous projects for the Board and the Authority in the water treatment and distribution field, including extensive improvements to the Filtration Plant (the "Plant") and sludge handling facilities; waterlines; raw water intake modifications; expanded chlorination capabilities and zebra mussel control system; the filtered water conduit; hydraulic analysis; record updating; storage tank rehabilitation; and pumping station upgrades.

In July 2014, CRA merged with GHD Inc. ("GHD") to become part of a connected global network of more than 8,500 people operating across 200+ offices in the Americas, Asia, Australia, the Middle East and Europe. GHD, established in 1928 and privately owned by its people, is one of the world's leading professional services companies operating in the global markets of water, energy and resources, environment, property and buildings, and transportation. GHD, now including CRA, operates across five continents providing a broad range of services to public and private sector clients.

1.4 Conclusions of the Report

The following paragraphs represent summaries of the Engineering Report and the opinions of the Consulting Engineer based upon the investigations and reviews performed.

1. The Board has an abundant supply of raw water at its Emerald Channel Intake. This intake is located at the point where Lake Erie meets the Niagara River.
2. The Board continues to evaluate, investigate, repair and/or rehabilitate the System's intake and treatment facilities as required, and with continued maintenance and appropriate capital investment, the facilities will be sufficient to meet current demands as well as those demands projected for the next 30 years.
3. The total rated pumping capacity at the Colonel Ward Pumping Station and Massachusetts Avenue Pump Station is more than two times the current average daily pumping demand, and these facilities, with continued maintenance and appropriate capital investment, have a life expectancy of more than 30 years.

4. The Board is in compliance with the National Primary Drinking Water Regulations and the Secondary Drinking Water Regulations. The Board continues to maintain the System and make necessary upgrades to meet the regulatory requirements.
5. The total number of System customers (measured by the total number of water accounts) has decreased since the issuance of the Authority's Series 2012-A Bonds. In addition to a declining population in its service area, the Board updated various account records as part of its ongoing collections and metering programs. Although the number of accounts has trended downward for several years, the rate of decline has slowed since 2007.
6. The Board has exclusive responsibility for distribution of water to customers within the City of Buffalo, as well as a few that either straddle the City line or are wholly outside the City limits. Due to the recent trend mentioned in item 5 above, the Board can expect a small continued decline in its customer base and no major fluctuations.
7. The System has several interconnections with the neighboring Erie County Water Authority ("ECWA") and the Town of Tonawanda. The System has relied on two interconnections to supplement supply during various water main improvement projects. The System uses another interconnection to provide supplemental supply to ECWA during the summer months, and is expected to provide additional revenues on a periodic basis.
8. This Report contains the Consulting Engineer's recommendations for the Board's CIP. The CIP is a prioritized schedule of improvements that addresses the System's most critical needs. The Board has adopted the recommended CIP. The Consulting Engineer further recommends that the Board review and update the CIP on an annual basis.
9. Assuming the continuous implementation of the CIP and continued satisfactory maintenance and service to the facilities, the System is anticipated to have a useful and functional life that will exceed 30 years.
10. In 2010, the Board and Veolia Water entered into a 10-year management agreement (the "Management Agreement") that calls for Veolia Water to oversee and manage the operations and staff of the water utility, including treatment, distribution, billing and collections, and customer service.
11. The members of the Board and Authority have sufficient experience necessary to satisfactorily execute their responsibilities. Together with the senior staff of the Division of Water, the Board and Authority have the qualifications to direct the operations of Veolia Water and implement the CIP.

12. Veolia Water and the Division of Water are qualified to manage, operate, and maintain the components of the System. Assuming the Board and the Division of Water timely implement a staffing fulfillment plan currently being developed to fill several current vacancies, Veolia Water's operation and maintenance of the System under the terms of the Management Agreement will be appropriate for the System.
13. The current system for billing and collections is in accordance with acceptable practice and operating procedures. An ongoing collection program is aimed at increasing collections and minimizing unpaid bills. The resulting revenue projections are considered stable.

Based on the contents of this Report, the System is rated as Sufficient, the highest rating possible. Provided the Board makes the improvements included in the CIP as scheduled and addresses the above-described staffing vacancies in a timely manner, the System will meet current and projected demands for the next 30 years and beyond.

Section 2.0 Organization

2.1 General

The following describes the management, operation, and financing of the System, and the role of the involved but separate entities:

The City of Buffalo: In 1992, pursuant to the authority granted by the Buffalo Municipal Water Finance Authority Act (the "Water Act"), the City sold the System and transferred all title and interest in the System to the Board under an Acquisition Agreement dated September 24, 1992. In accordance with the Acquisition Agreement, the Mayor of the City appoints all of the directors or members of the Board and some members of the Authority. The City Common Council confirms the Mayoral appointees to the Board and the Authority. The Board does not have any employees of its own, but pursuant to the Act and a Financing Agreement has the authority to use the services of City officers and employees to operate and maintain the System. As noted above, the Board has engaged Veolia Water to assist the Board in managing the day-to-day operations, maintenance, and repair of the System. The Division of Water maintains a small staff in City Hall.

Buffalo Municipal Water Finance Authority: The Authority is a public-benefit corporation created pursuant to the Water Act. Among its powers under the Water Act, and in accordance with the Financing Agreement, the Authority may borrow money and issue negotiable or non-negotiable notes, bonds, or other obligations to finance water projects and capital

improvements for the System. Additionally, the Authority has oversight of the operation and maintenance of the System and the Board's management of the System. The Authority is administered by a Board of Directors consisting of seven members. Currently there are three vacant Board of Director positions. The current members include:

- Steven J. Stepniak, Chairman, Commissioner of City Public Works;
- Donna Estrich, Commissioner of Administration, Finance, Policy and Urban Affairs, City of Buffalo;
- Abby Snyder (ex-officio), Regional Director, New York State Department of Environmental Conservation; and
- Hon. Richard A. Fontana, City Council member.

Buffalo Water Board: The Board was created under New York State Public Authorities Law Section 1049. In addition to the Financing Agreement, the Board entered into an Operation Agreement with the City dated September 24, 1992, as amended. Under the terms of the Financing Agreement, the Operation Agreement, and the Water Act, the Board is responsible to manage, operate, maintain, and repair the System. It is required to establish, charge, and collect rents, rates, fees, and charges in an amount necessary to pay the costs of operating and financing the System on a self-sustaining basis. The Board has the authority to enforce collection of all charges through lien foreclosure, civil lawsuits, and termination of service. It also has the authority to engage independent contractors to fulfill the Board's duties to manage, operate, and maintain the System. The Board consists of seven members who are appointed by the Mayor, and such appointments are subject to confirmation by the City Common Council. Currently, there are three vacancies on the Board. The current members include:

- Oluwole A. McFoy, P.E., Chairman, Principal Engineer, Buffalo Sewer Authority;
- Michael Finn, City Engineer, City of Buffalo;
- William K. Sunderlin, Director of Purchase, City of Buffalo; and
- Gerald E. Kelly, President, Kelly Capital Inc.

Veolia North America, LLC: In July 2010, the Authority, the Board, and Veolia Water entered into the Management Agreement pursuant to which Veolia Water assumed the responsibility for managing the operation and maintenance of the System. The System was previously managed by American Water Services ("AWS") from September 1, 1997 until June 30, 2010.

Veolia Water is responsible for day-to-day operations, maintenance, billings, and collections. The Division of Water, under the direction of the Board, manages the construction of required capital improvements and monitors the daily operations of the Veolia Water. Through System revenues managed by Veolia Water, the Board provides sufficient funds to the Authority to pay for all required principal and interest on outstanding revenue bonds.

Veolia Water's responsibilities include, but are not limited to, the following:

- Water production, transmission, and storage;
- Distribution;
- Unaccounted-for water program;
- Vehicle maintenance;
- Commercial and customer services;
- Meter reading, installation, and maintenance;
- Billing and collection activities ;
- Operational and safety training; and
- Security.

Veolia Water is part of a larger organization with over 179,000 employees. The organization provides water, waste and energy management solutions throughout the world. In 2014, the Veolia group supplied 96 million people with drinking water and 60 million people with wastewater service, produced 52 million megawatt hours of energy, and converted 31 million metric tons of waste into new materials and energy.

Members of Veolia Water's local management team are:

- Timothy Cupo – Project Manager;
- Damond Rand – Customer Service Manager;
- Damon Sykes – Asset Manager;
- Colleen Makar – Asset Manager; and
- D'wanna Clark – Office Manager.

The Management Agreement with Veolia Water calls for:

- Increased service and performance level targets;

- Increased equipment investment;
- Improved billing system enhancements;
- New phone system with interactive voice response (IVR);
- New computer hardware;
- Refined GIS/asset management system;
- Increased vehicle investments; and
- Increased maintenance investments.

Other City Personnel: In addition to the Division of Water, other City divisions and departments provide services to the Board and the Authority, including the departments of Administration and Finance, Law, Treasury, and the City Comptroller.

Division of Water employees under the management of Veolia Water perform normal operations within the System. Key members of the Division of Water staff include:

- Patrick Martin, Pumping Plant Superintendent;
- Michael Wolasz, Water Distribution Superintendent;
- Frank Sparacino, Water Treatment Supervisor (likely to retire in the near future and be replaced by Ms. Jan Ford); and
- Shaun McCleary, Filtration Plant Maintenance Supervisor (Mr. McCleary anticipates leaving the Division of Water this year for another City job; he is currently training another individual to fill his position).

Veolia Water manages unionized City staff pursuant to the Management Agreement. In addition, the Commissioner of City Public Works manages five Division of Water employees pursuant to existing collective bargaining agreements with four labor unions. Primarily due to attrition, there are currently a number of key process and maintenance staffing vacancies, resulting in some deferred maintenance. Consequently, the Erie County Department of Health has requested that the Board prepare the staffing fulfillment plan currently under development. The City and the Board are also working to fill the vacancies. The Consulting Engineer recommends that the Board move quickly to fill the vacancies.

The following table breaks down the estimated number of employees in each union by management group. All Division of Water employees are union members.

<u>Unions</u>	<u>Under City of Buffalo Management</u>	<u>Under Veolia Management (as of 3/1/2015)</u>
AFSCME Local 264 (Blue Collar)	0	26
AFSCME Local 650 (White Collar)	5	23
Teamster Local 264 (Pipe Caulkers)	0	39
AFL-CIO Operating Engineers Local 17	0	10

2.2 Training

Under the terms of the Management Agreement, Veolia Water has developed, and will implement, site-specific safety and emergency response programs that include ongoing training, record keeping, and safety meetings in conformance with the Occupational Safety and Health Administration Act and other applicable Laws. Furthermore, Veolia Water will maintain an emergency response plan that conforms to applicable requirements.

Veolia Water maintains its own safety group, which provides NYSDOH-certified courses in laboratory training, water quality, distribution, and treatment processes that allow operators to maintain their certification. Other internal and external training includes, but is not limited to, first aid, CPR, hazardous material, and terrorist preparedness. Distribution workers are trained in trench safety to maintain certification according to OSHA regulations.

2.3 Organizational Analysis

The overall organization of the System is rated as Sufficient. The members of the Authority and the Board have the appropriate backgrounds, qualifications and experience to execute their duties.

Veolia Water personnel and Division of Water employees in key positions have the qualifications to adequately operate and maintain the System. The Management Agreement provides a sufficient structure for operating and maintaining the System. Finally, the staffing fulfillment plan under development aims to address the key vacancies within a reasonable time.

Section 3.0 The System

3.1 Service Area

The Board supplies water to the City of Buffalo which, according to the U.S. Census Bureau, has a population of approximately 261,310 (2010). Water service is provided to approximately 72,700 active customer accounts. In addition to supplying water to residents and businesses located in the City, the System also supplies treated water to a small number of customers bordering the City limits in Cheektowaga, West Seneca and Lackawanna. The customer base consists of residential, commercial, and industrial customers. There are approximately 63,100 metered customers, and approximately 9,600 residential customers that are billed at a flat rate. The distribution system is interconnected with both the Erie County Water Authority and Town of Tonawanda water distribution systems for reciprocal emergency supply.

The ten largest customers as reported by the City, based upon the most recent annual billing cycle ending June 30, 2014, were:

**BUFFALO WATER BOARD
TOP TEN USERS
AS OF JUNE 30, 2014**

<u>Customers</u>	<u>Usage (Cubic Feet)</u>	<u>Charges</u>
Aurubis Buffalo, Inc.	55,690,500	\$ 959,957
Buffalo Sewer Authority	32,568,535	564,925
Buffalo Municipal Housing Authority	31,253,451	654,602
Erie County Medical Center	24,794,265	445,461
Sorrento Lactalis, Inc.	22,839,500	388,203
Tyson Foods *	18,518,000	310,733
Roswell Park	18,393,225	389,738
Erie County Water Authority	12,055,000	153,418
VA Financial Services Center	11,686,690	206,301
Buffalo State College	11,582,500	<u>222,701</u>
TOTAL		\$4,296,039

* On January 3, 2015, Tyson Foods closed the Buffalo plant. The facility is currently for sale.

Billings from these customers accounted for approximately 10 percent of total cash collections for the annual period ending June 30, 2014.

3.2 Raw Water Intakes

The Emerald Channel Intake is located on Lake Erie approximately 6,600 feet offshore from the treatment facilities. The structure is approximately 110 feet in diameter and contains a dozen 6-foot square sluice gates spaced evenly around its base. A 12-foot diameter inlet port allows water to enter a steel riser and go down to the 12-foot square raw water tunnel. The tunnel channels the raw water to the treatment facility on shore.

The second intake (Bird Island Intake) is located directly offshore from the Massachusetts Avenue Pump Station in the Niagara River. It has not been used since 1963 due to ice wear and damage. Due to its poor condition, the Bird Island Intake is currently out of service and would only be used in an emergency.

3.3 Treatment Facilities

The Filtration Plant (the "Plant") is located at the foot of Porter Avenue adjacent to Lake Erie and has a rated capacity of 160 million gallons per day (mgd). Raw water from the intake tunnel passes through a screen house via a 90-inch diameter conduit and enters the Plant (via the low lift pumps) where it is treated using rapid mixing, coagulation/flocculation, sedimentation, and filtration processes. Pre-filtration chemicals such as chlorine for pre-disinfection of raw water, poly-aluminum chloride for coagulation, and sodium silicofluoride to promote dental health, are added to the raw water.

The low lift pump room contains six pumps, collectively rated at more than 300 mgd, which transport water to the 10-million gallon capacity sedimentation basin. There are 40 rapid sand filters used for final clarification of treated water, with a total filtration capacity of 160 mgd. Post-filtration chemicals, such as poly-orthophosphate for corrosion control, and lead and copper compliance, and chlorine for disinfection, are added to the finished water conduit. Finished water passes into the approximately 30,000,000 gallon Clearwell. For filter backwash purposes, two centrifugal pumps draw water from the Clearwell and pump to two cylindrical holding tanks having a combined capacity of approximately 235,000 gallons. Filters are backwashed by gravity from these tanks. Filter backwash water drains to a backwash station (a cylindrical tank) and a 190,000-gallon rectangular equalization tank. Three vertical centrifugal pumps draw from the backwash station and equalization tank, and force backwash water into two cylindrical 750,000-gallon thickener basins at a maximum rate of 2,000 gallons per minute (gpm) each. Backwash water is sent to the thickeners until it is discharged into an on-site lagoon while coagulation/sedimentation basin sludge is sent directly to the lagoon. The lagoon is cleaned seasonally throughout the year via a new centrifuge process and final waste is transported to a landfill for disposal. Decant water from the thickeners is currently directed

back to the head of the Plant, but under the CIP will be directed to the adjacent canal to avoid recycling of filtered residuals.

3.4 Pumping Facilities

Colonel F.G. Ward Pumping Station:

The Colonel Ward Pumping Station was put into service in 1915. It has three 50-mgd centrifugal pumps that were installed in 1938 and completely reconditioned in 1998. Further pumping improvements completed in recent years include the addition of two 20-mgd pumps in 2014, which enhanced operational flexibility and efficiency. A third 20-mgd pump will be installed in 2016 to further improve operations.

Massachusetts Avenue Pumping Station:

The Massachusetts Avenue Pumping Station has one 50-mgd pump, two 30-mgd pumps and one new 18-mgd pump. The new pump allows the station to better match present-day system demands. An independent hydraulic accumulator system controls the actuators that open/close the cone valves to control flow out of the pump station.

The Colonel Ward and Massachusetts Pumping Stations are each independently capable of meeting the System's current average daily demand. This redundancy provides significant operational reliability and stability for the Board's customers.

3.5 Storage and Pressure Control Facilities

Manhattan Tank and Pump Station:

The Manhattan Tank and Pump Station, constructed in 1968, consist of a 5,000,000-gallon ground level storage tank and three booster pumps used to supplement supply and pressure to the northeast section of the City.

Grover Cleveland Tank and Pump Station:

The Grover Cleveland Tank and Pump Station, constructed in 1912, consist of a 250,000-gallon steel standpipe and four booster pumps. The tank is located in the northeast section of the City and is used to manage pressure in that area.

Kensington Tank:

The Kensington Tank was constructed in 1909 and is a 789,500 gallon steel standpipe tank enclosed in a brick building. It is located in the northeast section of the City. In 2014, due to its condition, the Kensington Tank was taken offline after consultation and concurrence from the Erie County Health Department ("ECHD"). A comprehensive hydraulic analysis and field

evaluation were completed that demonstrated minimal impact due to this operational change. An ongoing hydraulic modeling analysis is currently evaluating additional storage in the System.

Ferry Tank:

The Ferry Tank, constructed in 1938, is located in the east section of Buffalo. It is an elevated 2,000,000-gallon tank and supports distribution system pressure in the central part of the City.

Hancock Tank:

The Hancock Tank, also constructed in 1938, is an elevated 2,000,000-gallon tank located in the south section of Buffalo. This tank acts to support distribution pressure in the surrounding area.

Including the finished water Clearwell, the combined capacity of the System's storage facilities is in excess of 40 million gallons.

3.6 Water Transmission and Distribution Systems

The transmission and distribution systems consist of approximately 785 miles of pipe, 12,120 valves, and 7,400 fire hydrants. The major transmission system consists of 36-inch, 48-inch, and 60-inch feeder mains that create major supply loops around the City. The secondary transmission system consists of 16-inch, 20-inch, and 24-inch water mains, which form an intermediate system within the major supply loops.

The distribution system consists of all the remaining water mains, 4-inch to 14-inch in diameter, to which most end users are connected. Table 3-1 below lists the System's major facilities, including supply, storage, pumping, transmission and distribution.

<i>Name of Facility</i>	<i>Type of Facility</i>	<i>Capacity/ Size</i>	<i>Location</i>
Emerald Channel	Intake	110-ft. building diameter; twelve 6'x6' sluice gates around the base; 12' diameter inlet port and steel riser connected to a 12'x12' raw water tunnel that runs 6,600 feet to the Filtration Plant	Approx. 6,600 feet offshore of treatment plant on Lake Erie

Table 3.1 Major System Facilities			
<i>Name of Facility</i>	<i>Type of Facility</i>	<i>Capacity/ Size</i>	<i>Location</i>
Bird Island	Intake	Not in operation	Opposite Massachusetts Avenue P.S. in the Niagara River
Filtration Plant	Treatment	Six low lift pumps rated at 315 mgd; 40 rapid sand filters; 90-inch diameter filtered water conduit	Foot of Porter Avenue along Lake Erie
Colonel F. G. Ward Pump Station	High Lift Pump Station	Three 50-mgd pumps and two 20-mgd pumps, which were installed in 2014, for a total capacity of 190 mgd; one additional 20-mgd pump to be installed in 2016.	Adjacent to Filtration Plant
Massachusetts Avenue Pump Station	High Lift Pump Station	One 50-mgd pump, two 30-mgd pumps and one 18-mgd pump for total capacity of 128 mgd	Adjacent to NYS Thruway I-190
Manhattan Tank	Ground Storage	5,000,000-gallon ground storage tank	Northeast section of the City
Manhattan Pump Station	Booster Pump Station	Three 3,500-gpm pumps	Northeast section of the City
Grover Cleveland Tank	Elevated Storage	250,000-gallon standpipe storage tank	Northeast section of the City
Grover Cleveland Pump Station	Booster Pump Station	Two 2,400-gpm pumps and two 1,200-gpm pumps	Northeast section of the City
Kensington Tank	Elevated Storage	790,000-gallon standpipe storage tank. Not in operation	Northeast section of the City
Ferry Tank	Elevated Storage	2,000,000-gallon elevated storage tank	East section of the City
Hancock Tank	Elevated Storage	2,000,000-gallon elevated storage tank	South section of the City

<i>Name of Facility</i>	<i>Type of Facility</i>	<i>Capacity/ Size</i>	<i>Location</i>
Clearwell	Ground Storage	30,000,000-gallon finished water holding tank at the Filtration Plant	Filtration Plant
Transmission	Water Main	155 miles with 16-inch diameter and greater	System-wide
Distribution	Water Main	630 miles with 14-inch diameter and under	System-wide

3.7 Consumption and Losses

The historical annual finished water pumpage for the System is shown in Table No. 3.2.

<i>Year</i>	<i>Annual Total (Billion Gallons)</i>	<i>Daily Average (MGD)</i>
1998-1999	34.3	94.0
1999-2000	36.8	100.8
2000-2001	35.7	97.7
2001-2002	34.6	94.8
2002-2003	35.9	98.8
2003-2004	30.9	84.6
2004-2005	29.3	80.2
2005-2006	27.3	74.6
2006-2007	30.0	82.2
2007-2008	27.0	74.0
2008-2009	25.4	69.5
2009-2010	21.5	59.0
2010-2011	21.5	59.0
2011-2012	21.6	59.2
2012-2013	21.9	60.0
2013-2014	25.7	70.4

In 2014, Veolia Water performed an unaccounted-for water study. The purpose of the evaluation was to estimate the amount of water presently unaccounted for in the System and to identify options for corrective measures to minimize unaccounted-for water and maximize revenue. The study estimated that 34 percent of produced System water is lost or unaccounted for. This is comparable with other utilities of similar size and age in the Northeast. The most

significant reasons identified for water loss were leakage due to age and condition of the distribution system.

Section 4.0 Condition Assessment

The properties of the System are generally in fair to good condition. Some components are in poor condition while others are in very good condition. Overall, the System condition is Sufficient and can meet current and future demands, provided continued ongoing maintenance and the implementation of the Board's CIP and staffing fulfillment plan. Below is a summary of the major System components and CRA's opinion relative to condition.

4.1 Supply

The System source of supply is Lake Erie. The source is excellent in terms of its availability, quality, and sustainability. The supply is directed to the Plant via the intake facility located approximately 6,600 feet offshore near the head of Lake Erie, and a 12-foot square tunnel that runs beneath the lake bed to the low lift pumping station. The intake facility, often referred to as the "round house," is in good condition, having undergone a complete rehabilitation in 2002.

During 2011, the Board completed a comprehensive cleaning of the main intake shaft, as well as the first 200 feet of the supply tunnel, which had shown an accumulation of zebra and quagga mussel debris. It then implemented an improved operational plan by adding chlorine solution at colder temperatures. This continues to limit the mussels' future propagation.

The intake conduit appears to be in good condition based on a partial underwater video inspection conducted in December 2009 and again in 2011 that showed no apparent deterioration or change in condition from that observed during a full-length underwater video inspection of the tunnel completed in the early 1990's. Another partial video inspection is scheduled for this year.

A major rehabilitation of the low lift pumps, which lift raw water supply up to the treatment process, began in 2012 and will be completed this year. Pump No.'s 1, 2, 3, and 5 have been completely rehabilitated. Pump No. 6 was replaced with a smaller pump (18 mgd), such that pumping output can be more closely synchronized to System demands.

In addition to the raw water pumping improvements, new high efficiency motors and enhanced SCADA controls will be installed. Collectively, all of these pumping improvements will provide improved reliability and efficiency to the low lift pumping operations. Overall, with these

improvements, and the ongoing maintenance program, the System supply is Sufficient and will continue to be in good and serviceable condition.

4.2 Treatment

The System treatment facilities are in fair to good condition. Capital improvement projects at the Plant that were completed in 2009/2010 have significantly enhanced the filtration process and allow the Board to produce very high quality water. These improvements included a complete renovation and upgrade to the filters and all associated equipment, including asbestos removal, concrete structure repair and restoration, piping improvements, new control valves and actuators, new turbidity meters, new HVAC and environmental controls, and a new SCADA system to automate filter operations.

In 2008, the Board completed the rehabilitation of the south side of the settled water conduit between the sedimentation tanks and the filters. It replaced the original structure with a new concrete wall that is expected to maintain structural integrity and improve functionality for many years. The remaining section of the settled water conduit (north side) is under evaluation.

In 2013, the Board completed additional repairs to the north and south sedimentation basins, including new sludge gates, new curtains, stems, and baffles.

The Board has also upgraded its chlorination system, including equipment, piping, evaporators, chlorinators, and automation of the chlorination process through the SCADA system.

The improvements have led to more efficient pumping operations, enhanced treatment, increase removal efficiencies, and better filter maintenance.

CRA, in conjunction with the Division of Water, identified for the Board certain additional improvements needed within the sedimentation facility, fluoride system, solids handling, various building structures, and other ancillary facilities. The newly approved CIP addresses each of these needs. The improvements will enhance process efficiency, reduce operating costs, and promote a stable, continuous operation. Based on current conditions and with the anticipated improvements, the Treatment System is Sufficient.

4.3 Storage

The System storage facilities are in generally fair condition and considered Sufficient. The Manhattan Tank and the Grover Cleveland Tank are both in fair condition and scheduled for rehabilitation as part of the CIP. In particular, the Grover Cleveland Tank is operating in a

satisfactory manner, but shows signs of deterioration, including spalled concrete, deteriorated protective paint systems, leaking valves, and other items.

In 2014, due to its condition, the Kensington Tower was taken offline after consultation and concurrence from the ECHD. The Division of Water performed a comprehensive hydraulic analysis and field evaluation that demonstrated minimal impact from this operational change.

The Ferry and Hancock Tanks are in fair condition, with deterioration of the coating systems noted. Rehabilitation of these tanks is included in the CIP. Finally, the Clearwell appears to be in good and serviceable condition with no known deterioration of consequence.

4.4 Pumping Facilities

The pumping facilities are in fair to good condition. Major improvements were completed at the Colonel Ward Pumping Station that included installing two new high-service pumps that allow operators to match output in real-time to System demands. This provides significant energy efficiencies and minimizes the periodic recirculation techniques previously used to meet demands. New controls with soft starts and incorporation of the pumps into the SCADA system are scheduled for this coming year. These new controls will help mitigate pressure spikes and improve distribution reliability.

The Board also installed new backup power generators at the Colonel Ward Pumping Station that provide sufficient capacity to power the Plant in its entirety and supply up to 50 mgd in the event of a total power failure.

Further improvements are necessary at the Colonel Ward Pumping Station, including rehabilitation of the valve house, structural improvements, electrical upgrades, and various other ancillary items. The CIP addresses each of these needs.

The Board recently completed major improvements at the Massachusetts Avenue Pumping Station. Of four (4) high service pumps, one (1) 50-mgd and two (2) 30-mgd pumps were completely rebuilt and rehabilitated. A second 50-mgd pump was removed, and an 18-mgd pump was installed in its place so that operators can more closely match output to System demands. These improvements have permitted more efficient pumping operations. Additional improvements include improved controls, venturi meters, and integration with the SCADA system, which will allow remote operation of the pumping station.

The Manhattan Pump Station and Grover Cleveland Pump Station are operating satisfactorily. The CIP calls for improvements that will enhance the reliability and structural elements of these smaller pumping facilities.

Based on the condition of the various pumping stations and all of the ongoing and scheduled improvement projects, the pumping stations are Sufficient to provide satisfactory service with sufficient redundancy and reliability for System customers.

4.5 Transmission and Distribution

The Transmission and Distribution facilities are generally in fair condition. While some specific components are in poor condition, the System is operating in a satisfactory manner. Most of the buried pipelines within the System are approaching or beyond 100 years old. Due to normal wear and tear, environmental conditions, and hydraulic events, some are deteriorated. However, due to system looping and interconnections, the water supply to homes and businesses, including fire protection, is very redundant. This condition allows the Board to provide essentially continuous service to its customers even during water main breaks.

A comprehensive and wholesale pipe replacement program is not cost effective. Thus, the CIP focuses on critical water main replacements and areas of known difficulties and high break frequency, as opposed to widespread replacement. Priority is given to major transmission lines that are vital to the distribution system. Furthermore, the program is coordinated with the Department of Public Works and its streets rehabilitation program. This approach has proved effective in recent years, with several strategic miles of water mains replaced each year.

Based on the above improvements, ongoing maintenance, and continued implementation of the CIP, the Transmission and Distribution facilities are Sufficient to provide satisfactory service to System customers.

Section 5.0 Regulatory Requirements

Water produced by the Board is subject to the requirements of a number of state and federal regulations, including the Federal Safe Drinking Water Act (“SDWA”) and sub-part 5 of the New York Sanitary Code. The SDWA established National Primary Drinking Water Regulations (“NPDWR’s”), which cover contaminants with adverse effects on human health. NPDWR’s are enforceable by the United States Environmental Protection Agency (“USEPA”). The SDWA also developed Secondary Drinking Water Standards (“SDWS’s”) that cover contaminants that adversely affect the aesthetic quality of drinking water, such as taste, odor, and appearance. These are guidelines that are not enforceable by USEPA. Primacy for the enforcement of most

Federal Regulations is granted to the New York State Department of Health (NYSDOH) which is supported by Local Health Units such as the Erie County Department of Health (ECDOH).

The Board draws numerous daily samples for laboratory testing in accordance with regulations, and reports the results on a monthly basis to the City and the ECDOH. These monthly reports indicate that System water consistently complies with the NPDWR's and the SDWS's.

The regulations include the Total Coliform Rule (TCR) which established sample requirements for coliform bacteria, including Total, Fecal, and E-coli, based upon system size. . The Board continues to satisfactorily meet the testing and reporting requirements of the TCR. The Revised Total Coliform Rule (RTCR) will take effect April 1, 2016. The RTCR includes modifications to the sampling requirements and violation triggers. It is anticipated that The Board will be able to fully comply with the RTCR with existing processes and infrastructure.

The Surface Water Treatment Rule (SWTR), which took effect in 1994, imposed more stringent requirements on the Board regarding turbidity and chlorine contact time. The contact time requirement was satisfied by the chlorine system constructed in 1993. To meet the turbidity requirement, flocculation capabilities were added to the existing settling basins. Historically, high turbidities have only occurred in the late fall to early winter months when severe winds or lake inversion on Lake Erie stirs up sediment, however the treatment process is designed to handle these events.

The Board completed the testing and monitoring requirements of the Information Collection Rule in December 1998. The 18-month project mandated by the EPA, and started in July 1997, required the sampling and testing of water at various stages of the plant for regulated and non-regulated chemical compounds. USEPA used the collected information to formulate future regulations.

The Interim Enhanced Surface Water Treatment Rule ("IESWTR") and Disinfectant and Disinfection By-Products Rule ("D/DBPR") became effective February 16, 1999. The goal of the IESWTR is both to improve the control of microbial pathogens in drinking water and guard against any significant increases in microbial pathogens from implementing the D/DBPR. In summary, the IESWTR establishes filtering standards via turbidity monitoring and a maximum contaminant level goal ("MCLG") of zero for the parasite cryptosporidium. The Board installed turbidimeters on each filter for continuous monitoring, as required by the regulation.

The purpose of the D/DBP rule was establish a maximum contaminant level ("MCL") for carcinogenic trihalomethanes ("TTHM's") and haloacetic acids ("HAA's") in water distribution systems. The rule also established maximum levels for disinfectants such as chlorine. USEPA

subsequently implemented the Long Term 2 Enhanced Surface Water Treatment Rule and the Stage 2 D/DBPR. The Water Board has made modifications to accommodate additional sampling points in the System in order to properly sample for these regulations and is in full compliance. Both Federal and State Regulation require that public water systems inform their consumers annually about the constituents of their drinking water. The Board issues an Annual Water Quality Report to achieve compliance with this requirement.

The System is currently meeting the requirements of applicable regulations, permits and licenses. Based on CRA's review of available data, it appears that the Board satisfies all applicable regulations. Accordingly, the System is rated Sufficient, provided that the Board maintains its current efforts to comply with USEPA and NYSDOH regulations and guidelines. Furthermore, the Division of Water reports that the System can meet the anticipated new regulatory requirements for the foreseeable future.

Section 6.0 Capital Improvement Plan

The Board monitors the System 24 hours a day, 365 days a year, and periodically inspects primary system components such as the intake, treatment plant, pumping stations, chemical systems, storage facilities, etc. The Board's ongoing monitoring and regular inspections have contributed to its capital planning for many years. Over the last few years, the Board has invested tens of millions of dollars to improve system reliability, safety, quality, and efficiency.

The capital improvement process typically involves various phases, including planning, proposal, study, design, bidding, and construction. The Board conducts the capital planning process, with assistance from the Division of Water, the Consulting Engineer, and Veolia Water. The various parties formulate and prioritize the CIP in order to satisfy any new regulations and adapt to changing conditions that could affect the System's performance or reliability.

6.1 Current Capital Improvement Plan

The Board, in collaboration with the Division of Water, Veolia Water, the Consulting Engineer, and the City Engineer, recently developed a new CIP that calls for approximately \$78 million in new capital projects targeted for completion by 2020/21. The Board's Rate Consultant reviewed current and projected water rates, and concluded that projected revenues will be sufficient to support the current CIP. The Board adopted the current CIP in April 2015. The CIP is detailed in Table 6.1 below.

Table 6.1

CAPITAL IMPROVEMENT PLAN OF THE BUFFALO WATER SYSTEM (IN THOUSANDS OF DOLLARS)								
PROJECT CATEGORY	PROJECT NO.	PROJECT NAME	Fiscal Year - Estimated Project Costs					
			2014-2015	2015-2016	2016 - 2017	2017 - 2018	2018-2019	2019-2020
Colonel Ward Treatment and Pumping	1	Filter Plant Structural Walls		\$1,000				
	2	Filter Plant Treatment Optimization		\$100	\$100			
	3	Filter Plant Lagoon Rehabilitation		\$300	\$1,000			
	4	Filter Plant Sedimentation Basin Improvements			\$500			
	5	Filter Plant Filter Media Replacement		\$500				
	6	Filter Plant Laboratory Improvements			\$500			
	7	Filter Plant Backwash Sewer	\$2,500					
	8	Filter Plant Fluoride System / Chlorine Scrubber System	\$1,200					
	9	Filter Plant Miscellaneous Improvements*				\$250	\$250	\$250
	10	Colonel Ward Valve House Rehabilitation		\$200	\$1,000			
	11	Colonel Ward New High Service Pumps - Phase 2	\$6,500					
	12	Colonel Ward Pumping Optimization			\$500			
	13	Colonel Ward Power Upgrades			\$200	\$1,500		
	14	Colonel Ward Miscellaneous Improvements*				\$250	\$250	\$250
System Pumping and Storage	15	Massachusetts Ave. Pump One Rehab.			\$500			
	16	Massachusetts Ave. P.S. Power Upgrades		\$200	\$1,500			
	17	Massachusetts Ave. Tunnel Rehab.					\$500	
	18	Massachusetts Ave. Sump Rehabilitation			\$100			
	19	Massachusetts Ave. P.S. Miscellaneous Improvements*				\$250	\$250	\$250
	20	Manhattan P.S. Rehabilitation	\$1,300		\$300	\$500		
	21	Manhattan Tank Rehabilitation					\$100	\$1,500
	22	Manhattan Tank & P.S. Misc. Improvements*				\$250	\$250	\$250
	23	Grover Cleveland Tank & P.S. Rehabilitation				\$100	\$1,200	
	24	Grover Cleveland Tank & P.S. Misc. Improvements*					\$250	\$250
	25	Hancock Tank Rehabilitation			\$200	\$1,500		
	26	Ferry Tank Rehabilitation				\$200	\$1,500	
	27	New System Storage Tank		\$250	\$4,000			
	28	New Tank & P.S. for New Pressure Zone***				\$1,000	\$4,000	
Transmission & Distribution	29	System Disinfection Booster Station				\$750		
	30	Existing Tank Inspection & Evaluation Program		\$250				
Buildings & Other	31	New Pressure Zone Infrastructure Improvements***					\$1,000	\$4,000
	32	Annual Water Main / Valve Replacement / Rehabilitation	\$3,200	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Buildings & Other	33	Metering Program	\$60	\$500	\$250	\$250	\$250	\$250
	34	System Security	\$650		\$250	\$250	\$250	\$250
	35	Intake Rehabilitation						\$500
	36	Miscellaneous Improvements*						
	37	Building Improvements**	\$500	\$1,000	\$500	\$500	\$500	\$500
Estimated Total Annual Capital Project Costs:			\$15,910	\$8,300	\$15,400	\$11,550	\$14,550	\$12,250
Anticipated CIP Funding	Source of Funds							
	Unexpended Bond Proceeds		\$8,947					
	Anticipated O&M Reserve Utilization (pay-go)		\$6,963	\$8,300	\$2,000	\$1,000	\$2,000	\$2,000
	Anticipated Future Revenue Bonds				13,400	10,550	12,550	10,250
Total Project Funding:			\$15,910	\$8,300	\$15,400	\$11,550	\$14,550	\$12,250
Notes:								
* This item includes miscellaneous funds to be used to perform additional upgrades in the treatment, pumping, storage, transmission and other systems as required.								
** This item includes funds to be used to perform improvements to the buildings including structural beams, walls, floors, windows, roofs and other items as required.								
*** This item includes initial projected costs for construction of a new pressure zone. Engineering study currently underway that will determine final requirements and costs.								

6.2 Capital Improvement Plan Analysis

The Board, its consultants (including the Consulting Engineer), and related parties developed the current CIP to address the most immediate needs of the System. The CIP includes the following projects currently underway or scheduled to commence during 2015:

- Filter Plant Backwash Sewer – In 2010, the New York State Department of Environmental Conservation granted the Board a permit to discharge backwash decant more effectively

than the current practice. Provided the Board de-chlorinates the water, it can discharge the decant to a neighboring canal by hydraulic transmission. The ECDOH strongly supports this change, because the treatment will not involve recycling residuals. CRA believes that the improved decant process, including the new de-chlorination system, will both optimize and strengthen the treatment process.

- Filter Plant Fluoride System / Chlorine Scrubber System - This project includes the complete replacement and upgrade of the fluoride feed and addition system. The current system is aging, uses outdated technology, and has a manually intensive process. The new system will feature better efficiency, improved controls, SCADA integration, and enhanced safety for employees. The project also includes the complete replacement and upgrade of the chlorine scrubber system to eliminate caustic soda, minimize hazards and reduce maintenance.
- Colonel Ward Energy Performance Contract – Phase 2 – This project consists of installing a third new 20-mgd high service pump with a high efficiency motor. It also includes new pump controls, new SCADA monitoring and control, and new HVAC systems at the Colonel Ward Pumping Station and the Plant.
- Manhattan Pump Station Rehabilitation – This project involves general building upgrades and repairs, including roofing, heating, ventilation, electrical, and valve rehabilitation.
- Annual Water Main / Valve Replacement / Rehabilitation Program – This program continues the Board’s efforts to maintain high service levels, reduce leakage, and improve pressure throughout the distribution system. It includes the rehabilitation and/or replacement of targeted sections of the aging distribution system operating beyond their intended service life. The program generally falls into four categories: water main rehabilitation, water main replacement, large valve rehabilitation or replacement, and restoration.
- Metering Program - This program includes the residential meter improvement program and the large commercial/industrial meter change-out program. It also converts certain high revenue and/or difficult to read meters to a radio read system. The Board believes these changes are critically important, because having accurate meters will allow the Board to maximize its revenues.
- System Security – This project includes additional security improvements and continued hardening of the Plant. The main improvements include (i) a completed door access control system with keypad entry control units throughout the Plant and (ii) real-time video feeds at the Stations and Tanks.

- Building Improvements – This project will include rehabilitation and/or improvements to structural foundations, walls, roofs, windows, and repointing brick work.

Projects scheduled to commence during the 2015/2016 fiscal year include:

- Filter Plant Structural Walls – This project includes the rehabilitation of the filtered water conduit and filter walls at the Plant. It also includes the inspections and evaluations of remaining conduits.
- Filter Plant Treatment Optimization – This project will evaluate existing processes (e.g., chemical dosing, mixing, filter bed expansion) and recommend improvements for optimizing water treatment.
- Filter Plan Lagoon Rehabilitation – The existing clay liner is significantly deteriorated. The Board will choose a new lining system after evaluating competing systems based on process changes, ease of maintenance, durability, etc.
- Filter Plant Filter Media Replacement – During the normal treatment process, the filters must be backwashed periodically. This activity can cause a small amount of filter media loss. Over time, the lost media must be replaced to restore the filter beds to their original depth. This project includes the purchase and installation of new media to make up for normal losses since the last replacement project. Existing maintenance activities (i.e., backwashing) will be evaluated and revised as necessary.
- Colonel Ward Valve House Rehabilitation – This project includes the evaluation and design of improvements to the existing ventilation system, actuator rehabilitation, painting, corrosion protection, bolt replacement, and other ancillary items.
- Massachusetts Avenue Pump Station Power Upgrades – Electrical systems currently in place are antiquated and beyond their useful life. This project includes the evaluation and design of improvements and upgrades to the existing electrical systems.
- New System Storage Tank - This project includes an engineering evaluation and conceptual design of a new elevated storage tank. The tank is needed to maintain stable pressures in the northeast section of the City due to its elevation and the limited amount of elevated storage in the area.
- Existing Tank Inspection & Evaluation Program – This program will include the inspection and evaluation of the Manhattan Tank, Grover Cleveland Tank, Ferry Tank and Hancock Tank. The Board will not inspect or evaluate the Kensington Tank, which was taken offline for the foreseeable future.

- Annual Water Main / Valve Replacement / Rehabilitation – This program will continue the Board’s water main/valve replacement/rehabilitation work for 2015 described above.
- Metering Program – This program will continue the Board’s metering work for 2015 described above.
- Building Improvements – This project will continue the Board’s efforts to rehabilitate and improve structural foundations, building walls, roofs, and windows.

CRA has reviewed the Board’s CIP and concludes that the plan is Sufficient to meet current and future System needs.

Section 7.0 Summary

Based on our assessment of the System, the condition of its assets, ongoing maintenance, and planned upgrades and improvements included in the CIP, the Consulting Engineer’s general opinion of the System condition warrants a rating of Sufficient. In our opinion, the System is being maintained in generally good repair, and in serviceable condition.

The Board has made substantial re-investment in the System in recent years and plans to continue with additional necessary improvements. These improvements have and will strengthen the reliability, longevity, and efficiency of the System for years to come. We recommend that the Board continue to implement the CIP, while allowing for annual adjustments as conditions determine. Furthermore, CRA recommends that the Board finalize and timely implement the staffing fulfillment plan currently under development as required by the ECDOH. Finally, CRA recommends that the Board maintain an operations reserve fund equal to no less than 3 months of operating expenses, exclusive of debt service or coverage obligations. CRA believes that the Board’s implementation of these capital, maintenance, and operational recommendations will extend and safeguard the useful and functional life of the System well into the future.

APPENDIX C

RATE CONSULTANT REPORT

SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS

Basis of Presentation

The accompanying forecasted cash flows are based on projected estimates of Fiscal Year 2014-2015 revenues and expenditures with actual results through December 31, 2014 and assumptions concerning future events and circumstances with respect to the most likely courses of action to be taken by the Buffalo Water System (the "System"), which includes the operations of the Buffalo Municipal Water Finance Authority (the "Authority"), the Buffalo Water Board (the "Board") and the City of Buffalo (the "City"). The forecast presents, to the best of the Authority's, Board's and City's knowledge and belief, the anticipated cash flows, the projected operation and maintenance expenses and debt service assumptions (including financing required by the Capital Improvement Program), for Fiscal Years 2014-15 through 2019-20. Unanticipated events and circumstances are likely to occur subsequent to the date of the forecast which will cause actual cash flows to be different from the forecasted cash flows. Such differences may be material. The significant assumptions used in preparing the accompanying forecasted cash flows are explained below.

Projected Water Billings/Charges

Water Billings/Charges: Water Billings/Charges are charges for water consumption by System customers based on water rates established by the Board. Water Billings/Charges include charges for metered water usage, meter fees, and flat rate billings.

Projected Adjustments to Water Billings/Charges: Projected adjustments include corrections to prior Water Billings/Charges due to over billings resulting from estimated meter readings and/or adjustments due to bankruptcy and foreclosure proceedings. Adjusted values associated with customers converting from flat rate to metered based charges are also reflected as adjustments. Historical adjustment amounts for the last 24 month period averaged 3.6%. We have utilized a 3.6% adjustment factor in each of the years of the forecast periods beginning in FY2015-16.

Projected Cash Receipts

Projected Collections from Water Billings/Charges: Projected collections include the payments to be received from customers of the System, all of whom are located within the City (with the exception of 150 customers located along or outside the city line). Payments have been estimated based upon: (a) an annual reduction in the customer base or consumption equal to .2% in each year of the forecast period, beginning in FY2015-16. (b) the water rate for the 2014-15 Fiscal Year, (c) a collection rate on net adjusted billings of 96% based on historical results and current contractual requirements under the operator's contract and (d) anticipated increases in water rates in each Fiscal Year of the forecast period (see forecasted cash flows).

Historical user payments for water rates for Fiscal Year 2009-10 through Fiscal Year 2013-14 are as follows:

<u>Fiscal Year</u>	<u>Actual Cash Receipts</u>
2009-10	32,169,838
2010-11	35,423,338
2011-12	38,197,372
2012-13	39,902,509
2013-14	40,624,289

The assumed increase in user payments over the 2014-15 through 2019-20 periods is predicated on the ability of the Board to raise rates each year. In December 2009 the Board acted to adopt a three year plan to increase rates through FY 2012-13. A public hearing was held as required by the public law and the increases were unanimously approved. There have been no rate increases in FY 2013-14 or FY 2014-15 and the Board has maintained sufficient reserves that were able to be counted as revenues to offset any rate increases in these years (see also operations & maintenance reserve section.)

There is no rate increase anticipated for FY2015-16 and rate increases over the forecast period beginning with FY2016-17 are 1.0%, 1.5%, 1.5%, and 1.5% through FY 2019-2020 respectively.

Miscellaneous Fees: Miscellaneous Fees include fees for specific water services provided such as the review, inspection and approval of connections to the System. It also includes fees for items including hydrant use permits and fees from the Buffalo Sewer Authority (BSA) for billing and collection services provided to the BSA. Miscellaneous Fees were assumed to increase by 2% annually beginning in FY 2016-17 and over the forecast period.

Water Rate Interest: This includes interest charged and paid on overdue accounts by users of the System. Water Rate Interest has averaged approximately 3.1% of cash receipts in recent years and is projected to remain relatively constant. We have utilized 3.1% as a percentage of receipts over the forecast period.

Interest: Interest results from investment of balances in the Operations and Maintenance Reserve Fund, Capital Funds, and the Debt Service Reserve Fund. Interest has been projected based on historical earnings and the projected reserve balances utilizing a conservative factor of 1.0%. Interest has declined over the last five years. The average rate on invested balances historically has been .8%

Debt Service

The Series 2002 Bonds: The debt service payments for the Series 2002 Bonds reflect an issuance of \$11,785,000 with interest rates ranging from 2.5-5.125% and a 30-year term. Parts of these bonds were refunded with the 2005 Series Bonds and additional amounts were refunded with the 2007 Series Bonds.

New York State Environmental Facilities Corporation Series 2003 Bonds -: The debt service payments for the Series 2003 EFC Bonds reflect a principal amount of \$3,901,741 with interest rates ranging from 2.6-6.3% and a 27-year term. These bonds were partially refunded with the 2012 EFC issue.

New York State Environmental Facilities Corporation Series 2006 C Bonds- The debt service payments for the Series 2006 EFC Bonds reflect a principal amount of \$19,917,236 with interest rates ranging from 3.6-4.8% and a 20 year term.

The Series 2007 Bonds reflect an aggregate issuance of \$42,230,000 and include a partial refunding of the Series 1998 and 2002 Bonds. The Series 2007 Bonds provide for interest rates ranging between 3.6-5% and a 30 year term on the new monies and an 18 year term on the refunded amounts.

The Series 2008 Refunding converts previously issued auction rate obligations associated with a Series 2005 issuance to variable rate demand obligations as well as refunding a portion of the Authority's 1998, 1999, 2002 and 2005 Series Bonds. The Series 2008 bonds provide for interest rates ranging between 3.7%- 5.07% and a 30 year term.

The Series 2010 Bonds reflect an issuance of \$23,975,000 incorporating a series A(1) and A(2) including \$21,050,000 in Build America Bonds (BABS). The 2010 serial bonds carry interest ranging from 2-3.25% through 2016 and the term BABS carry interest ranging from 4.58%-6.887% through 2040.

New York State Environmental Facilities Corporation Series 2011 Bonds- The debt service payments for the Series 2011 EFC Bonds reflect a principal amount of \$2,720,000 with an average interest rate of 2.65% and a 10 year term.

New York State Environmental Facilities Corporation Series 2012 Bonds- The debt service payments for the Series 2012 EFC Bonds reflect a principal amount of \$2,575,000 with an average interest rate of 6.17% and a 20 year term.

The Series 2012-A Bonds reflect an aggregate issuance amount of \$17,150,000 and carry interest at rates ranging from 2.0%-4.0% and a 30 year term.

The Series 2015-A Bonds will refund the Series 2008A Bonds with an anticipated issuance of approximately \$53,000,000 carrying interest at rates ranging between 3.2-5.0%. Debt service savings resulting from this refunding is reflected in the accompanying forecast.

Anticipated Future Bond Issues

Future debt service payments on anticipated future bond issues of the Authority incorporate the requirements under the five-year Capital Improvement Plan (CIP). For purposes of this forecast we have assumed the Capital Improvement Plan (CIP) will be funded with issues that have a 20-year term with level semi-annual payments with interest at 3.75% although other funding mechanisms may be utilized, including Environmental Facilities Issues, as applicable.

The anticipated future bond issue principal amounts, for each of the Fiscal Years within the forecast period, net of pay-as-you-go CIP amounts are as follows:

<u>Fiscal Year</u>	<u>Series Bonds Principal Amount</u>
7/2016 for CIP 16-17	\$13.4M
1/2018 for CIP 17-18	\$10.6M
1/2020 for CIP 18-19	\$12.6M

The required rate increase projection includes debt service amounts for anticipated future bond issues in the Forecasted Cash Flows table. The anticipated bond issues for each Fiscal Year are based on the CIP requirements as evaluated by CRA Infrastructure and Engineering, Inc. The FY 2014-15 and FY

2015-16 CIP is expected to be funded with accumulated reserves, reflected as pay-as-you-go, in the accompanying forecast, and the remaining unexpended amounts from previous bond proceeds.

Operating Expenses/Disbursements

System Operations - Veolia Contract management: The Authority and Board signed a 10 year Management Agreement, dated July 1, 2010 (the “Management Agreement”), with Veolia Water, to provide management services in connection with the operation, maintenance, repair and improvement of the System. The relationship created between Veolia Water and the Board is one for professional and technical services by Veolia as an independent contractor. The Management Agreement grants Veolia limited authority as the representative of the Board in carrying out its obligations and neither the Board nor Veolia is an agent, employee or joint venture with the other, the City or the Authority. In accordance with the provisions of the Management Agreement, Veolia is to manage the City employees in a manner which is expected to achieve certain efficiencies and provide certain benefits to the Board. The Management Agreement obligates the Board to pay Veolia an annual fee, currently set at \$5,522,758 for Fiscal 2014-15 payable in monthly installments during the ten year term of the Management Agreement. This fee is subject to annual increases in accordance with increases in various economic and product indexes throughout the 10 year term. The overall assumed rate of increase is 2% annually over the forecast period. There were certain additional expenditures payable in addition to the contract amount for FY 2014-15. They are expected to bring the total amount payable to the operator for FY14-15 to \$5,932,000. The estimated contract amount for FY2015-16 is \$5,631,388 as calculated by CRA Infrastructure and Engineering, Inc.

System Operations – Labor, Health Care & Workers’ Comp., Pension: The operating costs also include Labor, Health Care and Pension Costs associated with the operation and maintenance of the Water System. These costs include direct salary costs plus fringe benefit and pension costs. Labor and fringe costs are assumed to increase 23.9% over actual FY 2014-15 costs to satisfy contract staffing requirements with the operator. This amounts to approximately 20 currently unfilled budgeted positions in the FY15/16 budget. Remaining increases over each year of the forecast period are at 2%.

Utilities: These represent projected increases in annual power costs and are not part of the contractual obligation of the Operator. These costs are paid directly by the System. Historical usage for FY13-14 has been used as a basis incorporating certain efficiencies realized with the high service pumps and increased 4% annually over the FY15-16 budgeted amount over the forecast period for estimated increases in utility rates.

Payments to the City of Buffalo in Lieu of Taxes and Indirect Cost: Operating payments reflect costs allocated to the System for support provided by various City agencies and departments. Services provided include budget preparation and review, cost and revenue accounting, and legal support. Such payments also include charges in lieu of property taxes on Water System property net of an allowance for the City’s water consumption. The base amount under the agreement with the City is \$4,036,000 and this amount may be increased by up to 5% annually, under the terms of the agreement with the City. For Fiscal Year 2014-15 the Payments to the City of Buffalo in Lieu of Taxes and Indirect Costs are expected to be \$5,679, 058 and are increased by 5% over each remaining year of the forecast period.

Payment to The City of Buffalo for General Obligation Debt Service: The Board is required to submit a payment to the City in an amount equal to the sum of the annual principal and interest payable on general obligation bonds issued by the City for water purposes. There were no amounts outstanding after FY 2017-18

Authority and Board Operations: The operating expenses of the Authority and the Board include administrative costs associated with the day-to-day operation of the Authority and the Board. These costs are projected to increase annually by 2%. FY 2014-15 amounts include previously required letter of credit fees.

Operations & Maintenance Reserve: Under the terms of the Financing Agreement, any accrued surplus remaining in the System Operations and Board Expense accounts at year end must be transferred into the Operations and Maintenance Reserve Account. If the balance in the Operations and Maintenance Reserve Account exceeds 10% of the Board's budget for the following year, then the excess may be used at the discretion of the Board for System Operations or Capital Improvements or deemed revenue and used to reduce the subsequent year's rate. We have utilized a portion of these O&M reserves available at June 30 2014 to offset rate increases in FY 2014-15 and throughout the forecast period and to maintain an adequate debt service coverage ratio as well as to fund part of the capital improvement plan in each of the years over the forecast period. This is labeled O&M Reserve Funds Considered Revenue and Pay As You Go-CIP in the accompanying forecast. Finally, any additional reserve amounts are available for Capital improvements or to maintain healthy reserve balances over and above the amounts considered as revenue for purposes of the debt service coverage calculation. The aggregate available reserve funds are captioned as Available O&M Reserve Funds in the accompanying forecast. They total \$27,025,028, including on-going project reserves, as of March 2015. Additionally, there is \$18,463,229 in a cash operations accounts, \$8,946,970 of which represents unexpended prior bond proceeds currently being utilized to fund capital plan improvements in FY 2014-15.

Forecasted Cash Flows
(000's omitted)

The following table sets forth the forecasted cash flows of the Buffalo Water System.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Required Net Rate Increase	0%	0%	1.0%	1.5%	1.5%	1.5%
Projected Gross Water Billings/Charges		43,102	43,446	44,010	44,580	45,159
Projected Adjustments to Water Billings/Charges		(1,552)	(1,564)	(1,584)	(1,605)	(1,626)
Projected Collections from Water Billings/Charges	39,968	39,888	40,207	40,728	41,256	41,792
Miscellaneous Fees	1,900	2,100	2,142	2,185	2,229	2,273
Water Rates Interest	1,233	1,237	1,246	1,263	1,279	1,296
Interest	82	150	152	153	155	156
Total Projected Cash Receipts	43,183	43,375	43,747	44,329	44,918	45,516
Transfers to Bond Trustee for Debt Service:						
Series 2002 Bonds	361	362	361	0	0	0
Series 2003 EFC Bonds	121	127	0	0	0	0
2006 Series (\$19.9M-EFC)	1,232	1,230	1,232	1,233	1,236	1,233
2007 Series Bonds	5,263	5,261	5,266	5,255	5,261	931
2008 Series Bonds	3,917	3,930	3,937	4,301	4,308	5,095
2010 Series Bonds	1,899	1,901	1,900	1,890	1,882	1,873
2011 EFC Bonds	267	270	277	278	289	289
2012 EFC Bonds	78	79	195	192	193	194
2012 Series Bonds	955	950	952	954	951	954
2015 Series Bonds (Ref 2008A)	(12)	(450)	(78)	(294)	(690)	(41)
Anticipated 7/2016 Bonds (\$13.4M) - for CIP 16/17	0	0	953	953	953	953
Anticipated 1/2018 Bonds (\$10.6M) - for CIP 17/18	0	0	0	377	754	754
Anticipated 1/2020 Bonds (\$12.6M) - for CIP 18/19	0	0	0	0	0	448
Anticipated 2022 Bonds (\$10.3M) - for CIP 19/20	0	0	0	0	0	0
Total Debt Service	14,081	13,660	14,995	15,139	15,137	12,683
Operating Expense Disbursements:						
System Operations						
Operator Contract	5,932	5,632	5,801	5,975	6,154	6,339
Labor & Fringes	9,487	11,751	11,986	12,226	12,470	12,720
Utilities	2,182	2,400	2,496	2,596	2,700	2,808
Payment to the City of Buffalo for General Obligation Debt Service	364	364	168	176	0	0
Payments to the City in Lieu of Taxes	5,679	5,963	6,261	6,574	6,903	7,248
Authority and Board Operations	1,326	715	729	744	759	774
Total Operating Expense Disbursements	24,970	26,825	27,441	28,291	28,986	29,888
Annual Cash Surplus/Deficit	4,132	2,890	1,311	899	795	2,945
Available O&M Reserve Funds ⁽¹⁾	20,109	14,504	13,714	13,544	12,495	13,440
O&M Reserve Funds Considered Revenue ⁽²⁾	3,000	3,900	6,200	6,700	6,800	3,400
Pay As You Go- CIP	7,000	8,300	2,000	1,000	2,000	2,000
Required Debt Service Coverage	1.15%	1.15%	1.15%	1.15%	1.15%	1.15%
Pledged Gross Revenues-Debt Service Coverage ⁽³⁾	3.28%	3.46%	3.33%	3.37%	3.42%	3.86%
Projected Debt Service Coverage ⁽⁴⁾	1.51%	1.50%	1.50%	1.50%	1.50%	1.50%
Required Net Rate Increase	0.0%	0.0%	1.0%	1.5%	1.5%	1.5%

(1) Available Operations and Maintenance reserve funds represent the total of those reserve funds in excess of 10% of the Board's next year's budget that can be used for System Operations or capital improvements to the System.

(2) Operations and Maintenance reserve funds considered revenue represent a portion of total reserve funds in excess of 10% of the Board's next year's budget that can be used to offset rate increases.

(3) Pledged gross revenues-debt service coverage is computed using total projected cash receipts plus O&M reserve funds considered revenue divided by debt service.

(4) Debt service coverage is computed using total projected cash receipts plus O&M reserve funds considered revenue less operating expense disbursements divided by debt service.

APPENDIX D

CERTAIN INFORMATION CONCERNING THE CITY OF BUFFALO

ECONOMIC AND DEMOGRAPHIC FACTORS

The City was incorporated in 1832. It is the second largest city in the State, encompassing a land area of 42 square miles with a 2010 population of 261,310. The City is located in Erie County in western New York State on the eastern shore of Lake Erie.

Employment

The economy of the Buffalo area underwent a transition in the decade from 1980 to 1990. Traditionally dominated by heavy manufacturing and petrochemical industries, the area lost manufacturing jobs in part from the decline in steelmaking employment at both Bethlehem Steel and Republic Steel. However, these losses were offset by increases in employment in trade, government, services, finance, insurance and real estate and contract construction.

While total employment declined from 2000 through 2010, growth in government, services, financial and insurance sectors helped compensate for reductions in manufacturing and trade. Statistically, the Buffalo area's job categories compare well with the U.S. average in the year 2010 with slight variances in two categories – finance/insurance and mining/construction.

The City remains committed to its downtown development strategy as a means of further diversifying its employment base. (See “ECONOMIC AND DEMOGRAPHIC FACTORS – Development Activity” herein.)

Major employers in the Buffalo area include the State, University of Buffalo, the U.S. Government, Kaleida Health, the County, Buffalo CSD, Catholic Health Systems and Manufacturers and Traders Trust Company.

TRENDS IN EMPLOYMENT BY CATEGORY IN THE BUFFALO METROPOLITAN STATISTICAL AREA (“MSA”) 2000-2014 (000's Omitted)

Category ⁽³⁾	2000		2010		2012		2013		2014	
	Buffalo MSA	United States	Buffalo MSA ⁽¹⁾	United States ⁽²⁾						
Manufacturing	83.0	17,263.0	49.6	11,528.0	51.3	11,921.0	50.7	12,006.0	50.6	12,142.0
Trade, Transportation & Utilities	109.3	26,225.0	97.8	24,636.0	100.6	25,511.3	101.1	25,870.0	101.5	26,409.0
Retail Trade	65.8	15,279.8	60.8	14,440.4	63.0	14,869.4	62.4	15,076.6	63.5	15,363.6
Wholesale Trade	23.9	5,933.2	21.1	5,452.1	21.8	5,673.9	21.7	5,746.8	21.7	5,867.0
Government	90.7	20,790.0	95.0	22,490.0	91.8	21,914.9	90.6	21,864.0	90.5	21,900.0
Service Providing	455.3	107,232.0	469.7	112,166.0	476.3	115,323.3	478.0	117,668.0	24.3	119,816.0
Other Services	23.1	5,168.0	23.4	5,331.0	23.3	5,436.4	23.9	5,464.0	481.7	5,511.0
Finance & Insurance	23.2	5,772.8	24.2	5,761.0	25.6	5,833.8	25.3	5,877.8	24.8	5,906.9
Mining & Lodging	20.8	599.0	18.9	705.0	19.5	850.8	19.2	868.0	19.2	912.0
	<u>895.1</u>	<u>204,262.8</u>	<u>860.5</u>	<u>202,509.5</u>	<u>873.2</u>	<u>207,334.8</u>	<u>872.9</u>	<u>210,441.2</u>	<u>877.8</u>	<u>213,827.5</u>

Source: U.S. Department of Labor - Bureau of Labor Statistics Data, January 2015

⁽¹⁾ Includes preliminary figures for the month of December 2014

⁽²⁾ Includes preliminary figures for the months of November & December 2014

⁽³⁾ Does not include all categories of employment

**Total Non-Agricultural Employment by Category
2000-2014**

Category ⁽³⁾	2000		2010		2012		2013		2014	
	Buffalo MSA	United States	Buffalo MSA ⁽¹⁾	United States ⁽²⁾						
Manufacturing	9.3%	8.5%	5.8%	5.7%	5.9%	5.8%	5.8%	5.7%	5.8%	5.7%
Trade, Transportation & Utilities	12.2%	12.8%	11.4%	12.2%	11.5%	12.3%	11.6%	12.3%	11.6%	12.4%
Retail Trade	7.3%	7.5%	7.1%	7.1%	7.2%	7.2%	7.1%	7.2%	7.2%	7.2%
Wholesale Trade	2.7%	2.9%	2.4%	2.7%	2.5%	2.7%	2.5%	2.7%	2.5%	2.7%
Government	10.1%	10.2%	11.0%	11.1%	10.5%	10.6%	10.4%	10.4%	10.3%	10.2%
Service Providing	50.9%	52.5%	54.6%	55.4%	54.6%	55.6%	54.8%	55.9%	2.8%	56.0%
Other Services	2.6%	2.5%	2.7%	2.6%	2.7%	2.6%	2.7%	2.6%	54.9%	2.6%
Finance & Insurance	2.6%	2.8%	2.8%	2.8%	2.9%	2.8%	2.9%	2.8%	2.8%	2.8%
Mining & Lodging	2.3%	0.3%	2.2%	0.4%	2.2%	0.4%	2.2%	0.4%	2.2%	0.4%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: U.S. Department of Labor - Bureau of Labor Statistics Data, January 2015

⁽¹⁾ Includes preliminary figures for the month of December 2014

⁽²⁾ Includes preliminary figures for the months of November & December 2014

⁽³⁾ Does not include all categories of employment

Unemployment Rates

The following table indicates that the City's rate of unemployment is higher than the State and national percentages. City data in the table were determined by using the Census share methodology, which is based on the ratio of the City to the County with respect to employment figures. The 2004-2010 data for the City is based on the City's population data from the 2000 Census. The 2012-2014 data for the City is based on the 2010 Census.

UNEMPLOYMENT RATES ⁽¹⁾

<u>Year</u>	<u>City</u>	<u>Buffalo MSA</u>	<u>State</u>	<u>United States</u>
2005	6.5%	5.3%	5.0%	5.1%
2006	6.3%	4.7%	4.6%	4.6%
2007	5.9%	4.9%	4.5%	4.6%
2008	6.9%	6.0%	5.3%	5.8%
2009	10.0%	8.6%	8.4%	9.3%
2010	10.2%	8.4%	8.4%	9.6%
2011	9.7%	7.8%	8.0%	9.0%
2012	11.1%	8.6%	8.6%	8.1%
2013	9.7%	7.5%	7.7%	7.4%
2014	7.2% ⁽²⁾	5.8% ⁽²⁾	5.7% ⁽²⁾	6.2%

Source: U.S. Department of Labor, Bureau of Labor Statistics, January 2014

⁽¹⁾ Total employment by place of residence

⁽²⁾ Includes preliminary figures for the month of December 2014

Population

The 2010 Census revealed that the City's population declined from 292,648 in 2000 to 261,310 in 2010. The most recent estimate provided by the U.S. Department of Commerce, Bureau of the Census has the City of Buffalo with a population of 259,384 for 2012.

POPULATION TREND 1980-2010

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
Buffalo	357,870	328,123	292,648	261,310
Erie County	1,015,472	968,532	950,265	919,040
Buffalo MSA	1,242,573	1,189,288	1,170,111	1,135,509
New York State	17,355,668	17,990,455	18,976,457	19,378,102
United States	225,234,182	249,632,692	281,421,906	308,745,538

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

CITY OF BUFFALO HOUSING CHARACTERISTICS 1980-2010

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
Year Round Housing Units	156,393	151,971	145,574	139,174
Occupied Housing Units	140,954	136,436	122,720	112,844
Persons Per Household	2.41	2.33	2.29	2.26

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

Development Activity

Buffalo's economy continues to build momentum, with major construction projects, primarily on the waterfront and the Buffalo Niagara Medical Campus, as well as a \$5.8 billion solar panel production facility, which broke ground in 2014. Since 2011, nearly \$10.4 billion in construction projects in Buffalo are either completed, underway, or in the planning stages, according to Buffalo Business First, a business newspaper. That number climbs to more than \$16.6 billion when including projects from the surrounding communities.

Buffalo RiverBend

The solar panel production facility, officially known as the Buffalo High-Tech Manufacturing Innovation Hub @ RiverBend, is located on a former brownfield which the City of Buffalo purchased through funding from New York State. The project has grown considerably from the initial plans in just the past year. After one of the original anchor tenants, Silevo, was acquired by industry giant SolarCity, the scope of the project – including the financial investment, the size of the facility, and the number of jobs created – has increased significantly. While Silevo was planning for a \$750 million investment and 475 new jobs, SolarCity will invest \$5.0 billion, and coupled with the state's \$750 million, the 88-acre site will create 3,000 new jobs. Upon completion, the 1.2 million square-foot facility will be the largest solar manufacturing facility in the western hemisphere, and have the ability to expand five-fold to accommodate future growth.

Information Technology

While RiverBend is the signature project in Governor Andrew Cuomo's pledge to invest \$1 billion in state funds to spur economic development in Buffalo, the "Buffalo Billion" also led to a commitment by IBM, announced in February 2014, to bring 500 jobs to a new, 100,000-square-foot, state-owned computer information technology center in Downtown Buffalo to train future and current industry workers and to create cutting-edge software for energy, health, defense and other industries.

Buffalo Niagara Medical Campus

The "Buffalo Billion" has also led to critical state investments at the Buffalo Niagara Medical Campus (BNMC), a consortium of the region's top health care, education, and research institutions. The 120-acre site adjacent to downtown is home to the Roswell Park Cancer Institute, Buffalo General Hospital, the Hauptman-Woodward Medical Research Institute, and the recently completed \$291.0 million facility that is home to the Kaleida Health Gates Vascular Institute the University at Buffalo's Clinical and Translational Research Center. Currently there are more than 12,000 employees at the BNMC today, up from 7,000 in 2002. By 2016 there is expected to be more than 17,000 employees at the BNMC, due to the completion of several major projects at the campus:

- The University at Buffalo's \$375.0 million new medical school, with more than a half-million square feet of space, which broke ground in 2013 and will be completed by 2016.
- Kaleida Health's Oishei Women & Children's Hospital, a \$270.0 million, 12-story, 250,000 square foot facility, which broke ground in 2014 is expected to be completed by 2017.
- A \$40.0 million expansion of Roswell Park Cancer Institute, including an 11-story, 142,000 square foot Clinical Sciences Center, which is under construction and expected to be completed by 2016.
- Conventus, a \$100 million medical office facility, is nearing completion, and is slated to open in 2015.
- A \$105 million genomic and supercomputing center at the campus was announced in 2014.

Just a few blocks from the campus, Catholic Health System opened a newly constructed \$51.0 million, six-story, 140,000-square-foot headquarters in 2014.

Education

The construction of the University at Buffalo's new medical school at the BNMC is part of the "UB2020" plan, a comprehensive growth strategy to increase jobs, enrollment, and research funding at the school, the largest public university in New York State, with more than 28,000 students across 3 campuses. UB2020 is expected to create more than 1,000 jobs at the university, in addition to 2,000 private-sector research jobs and 1,600 construction jobs.

In addition to the University at Buffalo, the area is home to 20 other colleges & universities (State University College at Buffalo, Niagara University, Canisius College, D'Youville College, Daemen College, Erie County Community College, etc.), for a total of 110,000 students and 32,000 employees in higher education, creating a \$3.2 billion economic impact.

Waterfront Development

Capitalizing on its Lake Erie shoreline and historic significance as the western terminus of the Erie Canal, Buffalo has recently made great strides in developing its waterfront. The centerpiece of this effort is the Canalside project, which has blended public access with private development to create a destination in the heart of downtown.

The initial phases of the project included more than \$100.0 million in renovations to the waterfront, including a central wharf, a navigable commercial slip, the excavation of historic streets and buildings, a pedestrian bridge, a new building housing a restaurant and a museum, an amphitheater, a public park, and One Canalside, formerly the Donovan State Office Building, which recently completed a \$30.0 million renovation including office space, retail and a 96-room Marriott hotel.

Progress on the later phases of Canalside continues, with replica canals opening for ice skating in December 2014 at the site of the former Memorial Auditorium. 40,000 people used the ice skating rinks in its first seven weeks. Three new buildings at Canalside, including the \$12.0 million Explore and More Children's Museum, will begin construction in 2015.

The public investment at Canalside has spurred more than \$250.0 million in private investment surrounding the site.

Adjacent to Canalside is HARBORCenter, where the Buffalo Sabres are nearing completion of a \$172 million hockey-themed project, which includes a 20-story facility with two ice rinks, a 200-room Marriott hotel, retail, and a high-end sports bar. Connected to the Sabres' arena, the First Niagara Center, the rinks and sports bar at HarborCenter opened in 2014, with the hotel slated to open in 2015. HarborCenter is expected to draw 500,000 visitors annually, and once complete, is expected to create 350 full time jobs and generate \$4.1 million in state and local taxes..

Waterfront development has also spread past downtown, with major public access developments on the Outer Harbor and the Buffalo River. Major improvements have been made at Gallagher Pier on the Outer Harbor portion of the Lake Erie shoreline, including a new pier and boardwalk, a small boat/personal watercraft launch, beach access, bike paths, and a playground. Another new waterfront park on the Outer Harbor, Wilkeson Pointe, opened in 2013 and includes wind sculptures, beach volleyball, and boat docking. The 2014 transfer of Outer Harbor land from the Niagara Frontier Transportation Authority to two state entities – the Erie Canal Harbor Development Corporation and the Office of Parks, Recreation, and Historic Preservation – will help to accelerate the waterfront development currently underway.

On the Buffalo River shoreline is the \$5.0 million Buffalo Riverfest Park, which features a wharf, a boardwalk, boat docking, trails, gardens, an amphitheater, a concession building and interpretive signage. Upstream is the Mutual Riverfront Park, a multi-million project that includes a museum, a public park, a boardwalk promenade, a river overlook, and a boat launch with a storage facility. Construction is underway on another Buffalo River attraction, Riverworks, a \$15.0 million project that converts a grain elevator into a waterfront recreational facility with two ice rinks, a beer garden, a brewery, an outdoor public beach area, boat docks and a performing arts space.

Infrastructure

\$11.0 million in funding is in place for the Ohio Street Corridor, a proposed parkway that will connect attractions at Canalside, the Buffalo River, and the Outer Harbor.

The Cars Sharing Main Street project continues to bring vehicular traffic back to Main Street, while preserving the light rail system on the thoroughfare. With the 600 and 700 block of Main Street completed, and 500 block currently under construction, the project is already fulfilling its goal of increasing economic development and activity on the street.

Housing

With the Buffalo Niagara Medical Campus and Canalside being located on the city's Metro Rail subway system, \$91 million is being invested in real estate projects, primarily housing, near the subway stations. The city expects to approve 800 to 900 new housing units along the subway by 2016, with as many as 2,000 to 3,000 more in later years.

Kaleida Health announced in November 2013 a \$63.0 million plan for reuse of the former Millard Fillmore Gates Circle Hospital, including a \$28.0 million continual care campus for elderly residents, as well as a \$35.0 million plan for more than 500 condominiums and market-rate apartments.

Buffalo has seen a dramatic increase over the past decade in the number of residential units being developed in the downtown core. Approximately 1,000 new units have come online within the past five years, with the majority a result of renovating and repurposing existing structures. According to a 2011 study, 4,225 households comprise the potential downtown residential market, significantly higher than the 1,315 households identified in a 2004 study. Over the next five years, it is estimated that between 160 and 320 new units can be absorbed annually. Demographic trends and lifestyle preferences indicate that downtown residential markets will continue to gain strength into the foreseeable future.

Data from research firm Clear Capital, published in the January 2014 issue of Kiplinger's Personal Finance magazine, shows Buffalo prices are up 16 percent since May 31, 2006 – highest among the nation's 100 largest metro areas. Home prices in some City of Buffalo neighborhoods increased as much as 43 percent during this period. In 2013, home prices in the Buffalo area rose 6.9 percent.

Hospitality

The hotels at HARBORCenter, One Canalside, will soon be joined by another project that includes hotel space, Ellicott Development Company's "The Carlo," a 14-story, \$75.0 million mixed-use complex to be located near the Erie Basin Marina. These new builds are in addition to five other new hotels recently completed or planned in Buffalo that rehabilitate historic buildings. The Hotel @ the Lafayette a \$42.0 million project, and the Webb Building, a \$9.0 million project, were completed in 2012. Construction is completed on the Tishman Building, a \$40.0 million project that includes a 123-room Hilton Garden Inn, and the Curtiss Building, an \$18.0 million 68-room luxury hotel. Initial work has also begun on the historic Richardson Olmsted Complex, which will renovate H.H. Richardson's architectural masterpiece into a 90-room, \$56.0 million boutique hotel and high-tech conference center.

Finance & Corporate Headquarters

Buffalo is the home to the corporate headquarters of two rapidly expanding banks, M&T Bank and First Niagara Bank. M&T Bank, founded in Buffalo in 1856, is one of the nation's largest 20 banks, with \$81.0 billion in assets and more than 15,000 employees, a third of which are located in the Buffalo area. M&T's footprint includes 750 branches in New York, Maryland, Pennsylvania, Virginia, Washington, D.C., West Virginia, Delaware, New Jersey, and Florida. First Niagara Bank is one of the nation's largest 40 banks, with \$33.0 billion in assets and more than 5,000 employees, most of which are located in the Buffalo area. First Niagara's footprint includes 450 branches in New York, Pennsylvania, Connecticut, and Massachusetts.

HSBC bank has a major back-office presence in Buffalo, with more than 3,000 employees located in the area. Key Bank, Bank of America, Citizens Bank, and several local banks also have a major branch presence in the region.

Buffalo is home to the headquarters of several major corporations, including Rich Products, Labatt USA, the New Era Cap Company, Sorrento Lactalis, and Delaware North Companies. Delaware North's headquarters, an \$80 million, 12-story office tower, is currently under construction, and will also include a 120-room hotel.

Automotive Industry

More than \$1 billion has been invested or are slated to be invested in automotive factories in the Buffalo area. \$825 million was invested in the General Motors engine plant, which added 113 jobs in 2013, for a total of 1,902 jobs at the facility. Ford announced in November 2013 that it will invest \$150 million and add 350 jobs to its stamping plant, for a total workforce of 1,070 employees.

Entertainment and Culture

Downtown Buffalo is also the regional hub of Western New York entertainment, drawing approximately seven million visitors per year. The largest draw is special events, which attract 1.3 million visits per year for the Taste of Buffalo, Canalside Summer Music Series, the M&T Lunchtime concert series, the National Buffalo Wing Festival, and other events. Sporting events draw 1.2 million visits for hockey, baseball and lacrosse, while some 700,000 patrons enjoy Theatre District events. The City's vibrant arts community and world-renowned architecture are also major tourism draws.

The long term future of the National Football League's Buffalo Bills was ensured with the purchase of the franchise for \$1.4 billion by Buffalo Sabres owner Terry Pegula, who has committed to keeping the team in the region for the foreseeable future. Pegula has also committed to building a new stadium for the Bills, which could potentially be located in the City of Buffalo.

Buffalo is also home to the Buffalo Sabres of the National Hockey League (NHL), and the Buffalo Bisons baseball team, the Triple-A affiliate of the Toronto Blue Jays.

The \$130.0 million Buffalo Creek Casino, with 800 slot machines, 15 table games, and a restaurant opened in August 2013. A temporary casino had been operating since 2007.

The City of Buffalo is the home of numerous institutions devoted to the arts, including the world famous Albright-Knox Art Gallery and Kleinhans Music Hall, the home of the Buffalo Philharmonic Orchestra.

Buffalo's historic theater district provides the stage for legitimate theater with the largest concentration of theaters in New York State outside of New York City. Shea's Buffalo Theater, Alleyway Theatre, and the Irish Classical Theatre anchor the City's downtown theatre district.

The City is also the location of the Buffalo Museum of Science, the Buffalo and Erie County Historical Museum, the Buffalo Zoo, and the Botanical Gardens of Buffalo and Erie County.

Library services are provided through the Buffalo and Erie County Public Library Systems with 218 employees, circulating over 7.6 million items at 37 branches located throughout Erie County.

Canadian Impact

Buffalo's proximity to Canada has resulted in robust retail growth at a time when the retail industry has struggled across the country. Canadian shoppers, taking advantage of lower sales tax and a favorable exchange rate, have been attributed as the cause for a 4.5% increase in sales tax revenue. Canadian travelers have also been credited with the rapid increase in passengers at the Buffalo Niagara International Airport. Canadians are estimated to make up 40% of the recorded 5.1 million passengers that used the airport in 2013, supporting 17,000 jobs with \$1.1 billion economic impact.

The impact of Canadians on the local economy is expected to increase as the "Golden Horseshoe" region of Southern Ontario (Toronto-Niagara Falls-Hamilton area) is projected to grow from 8.8 million people today to 11.5 million by 2031. Last year, Governor Cuomo announced an expanded Peace Bridge Plaza that would strengthen the region's ties with Southern Ontario by making border crossings quicker and easing congestion on the bridge. The plan also includes \$2.0 million for improvements to the surrounding neighborhood.

Transportation

Buffalo is located in the center of a complex transportation network of truck, rail, highway, water and air facilities. The Peace Bridge Authority has begun a full EIS (Environmental Impact Statement) process to study location, size and design of one or two bridges and an associated plaza.

The Port of Buffalo is eighth in size of the 54 Great Lakes ports and twenty-ninth in size of the 40 major U.S. ports. The Port's terminal facilities encompass 185,000 square feet of enclosed storage space for marine cargo and approximately 200 acres of open storage space. On May 28, 1976 a Foreign Trade Zone (the "FTZ") began operation at the Port of Buffalo. Imported goods may be processed in the FTZ, sorted, stored and repackaged without payment of any duties until the goods are actually sold to importers in the United States or elsewhere. A total of 153 acres at the former Bethlehem Steel Plant has been designated as the FTZ and approximately 31 companies occupy the FTZ at the relocated Port of Buffalo.

Truck service is provided in the Buffalo area by various transcontinental, international and common carriers. Several freight and passenger lines, including Conrail, Amtrak and Canadian National Railways, provide rail service.

The Buffalo Niagara International Airport (BNIA), operated by the Niagara Frontier Transportation Authority (NFTA) is a regional airport serving the Buffalo-Niagara Metropolitan Area providing approximately 110 daily flights. The following table sets forth the trend in passenger volume at the Buffalo Niagara International Airport from 2004 through 2013.

**Buffalo-Niagara International Airport
Passenger Volume Trend**

<u>Year</u>	<u>Passenger Volume</u>	<u>% Change from Prior Year</u>
2005	4,868,890	9.6%
2006	5,063,884	4.0%
2007	5,335,394	5.4%
2008	5,526,301	3.6%
2009	5,334,232	-3.5%
2010	5,203,104	-2.5%
2011	5,194,162	-0.2%
2012	5,177,913	-0.3%
2013	5,134,925	-0.8%
2014	4,750,643	-7.5%

Source: Niagara Frontier Transportation Authority, January 2015

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APPENDIX E

GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS

The following words and terms used in this Appendix E shall have the respective meanings set forth below unless the context or use indicates another or different meaning or intent:

“Account” shall mean one of the special accounts created and established pursuant to the Resolution and/or the Agreement.

“Accountant” shall mean an independent certified public accountant (or a firm thereof) of recognized standing, selected by the Authority and satisfactory to the Trustee and may be the accountant regularly auditing the books of the City.

“Accreted Value” shall mean at any particular time, the value of any Capital Appreciation Bonds used for the purpose of determining any required principal amount for Bondholders’ consents or approvals, the amount of the Bonds Outstanding, the redemption price of such Bonds or the priority of any claim for payment of interest or principal upon the occurrence of an Event of Default, all as provided in the Supplemental Resolution authorizing issuance of any such Capital Appreciation Bonds.

“Acquisition Agreement” shall mean that portion of the Agreement entitled the Acquisition Agreement dated as of September 24, 1992 between the City and the Board. Pursuant to the Acquisition Agreement, the City has sold the System to the Board in December of 1992 for a purchase price (the “Purchase Price”) equal to the sum of (a) the outstanding balance of the City’s bond anticipation notes outstanding with respect to the System (\$6,215,000 principal plus unpaid interest) plus (b) \$26,536,880. The Purchase Price was financed by the issuance of the Series 1992 Bonds.

“Acquisition Date” shall mean the date of the conveyance of the System by the City to the Board pursuant to the Acquisition Agreement.

“Act” shall mean, solely for purposes of this Appendix E, the Buffalo Municipal Water Finance Authority Act, constituting Sections 1048-a through 1048-bb of Title 2-B of Article 5 of the Public Authorities Law of the State, as amended.

“Aggregate Debt Service” shall mean for any Fiscal Year, as of any date of calculation, the sum of the Debt Service for all Bonds Outstanding during such Fiscal Year.

“Agreement” shall mean the Financing Agreement dated as of September 24, 1992, amended as of July 7, 1995, as of June 19, 1996, as of August 1, 1997, and further amended as of September 15, 2005, entered into pursuant to Section 1048-i of the Act, by and among the Authority, the Board and the City, as the same may be further amended or supplemented, which Agreement expressly incorporates both the Acquisition Agreement and the Operation Agreement.

“Annual Budget” shall mean the annual budget of the Board, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in Section 6.4 of the Agreement.

“Annual Report” shall mean the annual report of the Authority as described in Section 706 of the Resolution.

“Appendix A” shall mean Appendix A to the Agreement, as the same may be amended from time to time in accordance with the provisions of the Agreement.

“Arbitrage and Use of Proceeds Certificate” shall mean the Arbitrage and Use of Proceeds Certificate of the Authority executed and delivered on original issuance of any Series of Bonds.

“Authority” shall mean the Buffalo Municipal Water Finance Authority, a body corporate and politic constituting a public benefit corporation created and existing under and by virtue of the Act.

“Authority Budget” shall mean the annual budget of the Authority, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in Section 712 of the Resolution.

“Authority Expense Fund” shall mean the Authority Expense Fund established pursuant to Section 502 (a) of the Resolution.

“Authority Expenses” shall mean all reasonable or necessary expenses of the Authority, including, but not limited to, all salaries, administrative, general, commercial, engineering, advertising, auditing, accounting and legal expenses, insurance and surety bond premiums, fees paid to banks, insurance companies or other financial institutions for the issuance of Credit Facilities, consultants’ fees and charges, payments to pension, retirement, health and hospitalization funds, costs of public hearings and public notices, ordinary and current rentals of equipment and other property, lease payments for real property or interests therein, expenses, liabilities and compensation of any Fiduciary, and all other expenses necessary, incidental or convenient for the efficient operation of the Authority as such Authority Expenses may be limited by the Act or the Agreement.

“Authorized Newspaper” shall mean “The Bond Buyer” or such other newspaper or financial journal designated by an Authorized Representative of the Authority that is customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, printed in the English Language, containing financial news, and of general circulation in the Borough of Manhattan, City and State of New York.

“Authorized Representative” shall mean (i) in the case of both the Authority and the Board, their respective Chairperson or such other person or persons so designated by resolution or the by-laws of the Authority or the Board, as the case may be, to perform the act or sign the document in question and (ii) in the case of the City, the Mayor, or, in the absence or incapacity of the Mayor, such other person authorized to act on behalf of the City in the Mayor’s absence or incapacity.

“Bank” shall mean the bank, trust company or banking association (which may be the Trustee) designated by the Board to act as depository for the funds of the Board.

“Beneficial Owner” means any Person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for Federal income tax purposes.

“Board” shall mean the Buffalo Water Board, a body corporate and politic constituting a corporate municipal instrumentality of the State created and existing under and by virtue of Chapter 368 of the Laws of 1985 and empowered by the Act.

“Board Expense Account” shall mean the Buffalo Water Board Expense Account established within the Local Water Fund by, and held in the custody of, the Board pursuant to Section 4.2(A)(1) of the Agreement.

“Board Expenses” shall mean all reasonable or necessary expenses of the Board, including, but not limited to, all Operating Expenses, costs of improvements to the System as provided in the Operation Agreement Section 3.1(F), salaries, administrative, general, commercial, engineering, advertising, auditing, accounting and legal expenses, insurance and surety bond premiums, consultants fees and charges, payment to pension, retirement, health and hospitalization funds, costs of public hearings and public notices, ordinary and current rentals of equipment and other property, lease payments for real property or interests therein, expenses, liabilities and compensation of any depository of funds of the Board, and all other expenses necessary, incidental or convenient for the efficient operation of the Board as such Board Expenses may be limited by the Act or the Agreement.

“Bond” or “Bonds” shall mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered pursuant to the Resolution and shall also mean any Parity Reimbursement Obligation, but shall not mean Subordinated Indebtedness or Bond Anticipation Notes.

“Bond Anticipation Notes” shall mean any of the Notes issued pursuant to Section 208 of the Resolution.

“Bond Counsel” means Underberg & Kessler LLP or any other attorney at law or firm of attorneys selected by the Authority and reasonably acceptable to the Trustee, the Remarketing Agent, and the Authority of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Counsel’s Opinion” shall mean an opinion signed by any attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of municipalities and public agencies, selected by the Authority and satisfactory to the Trustee.

“Bond Depository” shall mean, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Authority to act as bond depository for the Bonds in connection with a Book-Entry-Only System of distributing Bonds.

“Bondholder”, “owner” or “holder” or words of similar import shall mean, when used with reference to a Bond, the person in whose name the Bond is registered.

“Bond Payment Date” shall mean each date on which interest or both a Principal Installment and interest shall be due and payable on any of the Outstanding Bonds according to their respective terms.

“Bond Year” shall mean, with respect to any Series, the twelve-month period, if any, set forth in the Supplemental Resolution authorizing such Series.

“Budget Documents” shall have the meaning set forth in Section 6.4(C) of the Agreement.

“Capital Appreciation Bonds” shall mean any Bonds issued under the Resolution with a stated value at maturity, the Accreted Value of which is not payable until maturity or earlier redemption. The Debt Service Reserve Requirement, if any, for Capital Appreciation Bonds shall be determined in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Capital Appreciation Bonds. For purposes of consents, voting rights, bondholder action or any other matter in the Resolution determined by a percentage of the aggregate principal amount of Bonds Outstanding, Capital Appreciation Bonds shall be valued at their Accreted Value.

“Capitalized Interest” shall mean, for any particular Series, that portion of the proceeds of the Bonds of such Series, if any, required by the Supplemental Resolution authorizing such Series to be deposited in a sub-account established for such Series in the Capitalized Interest Account in the Debt Service Fund, for the purpose of funding the payment of a portion of the interest on the Bonds of such Series.

“Capitalized Interest Account” shall mean the Account by that name established in the Debt Service Fund pursuant to Section 502(c) of the Resolution.

“Certificate” shall mean, as the context indicates, either (i) a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Resolution or the Agreement, (ii) the report of an Accountant as to an audit or compliance called for by the Resolution or the Agreement, or (iii) any report of the Consulting Engineer or Rate Consultant as to any matter called for by the Resolution or the Agreement.

“Chief Accountant” shall mean, as of any date, the duly appointed and acting Chief Accountant of the City, or such other person duly appointed and authorized to act on behalf of the Chief Accountant, or, if there shall no longer be a Chief Accountant, the duly appointed official of the City succeeding to the duties and functions of the Chief Accountant.

“City” shall mean The City of Buffalo.

“City Charter” shall mean The Charter of the City of Buffalo, as amended from time to time.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Commencement Date” shall mean the effective date of the Management Agreement, September 1, 1997.

“Commissioner” shall mean, as of any date, the duly appointed and acting Commissioner of Public Works of the City, or such other person duly appointed and authorized to act on behalf of such Commissioner, or, if there shall no longer be such an office, the duly appointed official of the City succeeding to the duties and functions of such Commissioner.

“Common Account” shall mean the Common Account established in the Debt Service Reserve Fund pursuant to Section 502(b) of the Resolution.

“Common Council” shall mean the Common Council of the City.

“Comptroller” shall mean the Comptroller of the City or such other person duly appointed and authorized to act on behalf of the Comptroller.

“Construction” shall have the meaning assigned such term in subsection 6 of Section 1048-b of the Act.

“Construction Fund” shall mean the Construction Fund established pursuant to Section 502 (a) of the Resolution.

“Consulting Engineer” shall mean such independent engineer or firm of engineers of recognized standing selected by the Authority in consultation with the Board and approved by the City.

“Continuing Disclosure Agreement” shall mean that certain Continuing Agreement between the Authority, the Board and the Trustee dated as of June 3, 2015, as it may be amended from time to time in accordance with its terms.

“Contract Year” shall mean the twelve (12) month period commencing on the Commencement Date and each successive twelve (12) month period thereafter during the term of the Management Agreement, as such term may be extended.

“Costs” or “Costs of a Water Project” shall mean all costs of Construction, including without limitation, the acquisition, erection, building, alteration, improvement, increase, enlargement, extension, reconstruction, renovation or rehabilitation of the System or a Water Project or any portion of either, the inspection and supervision thereof, the engineering, architectural, legal, fiscal economic and environmental investigations and studies, surveys, designs, plans, working drawings, specifications, procedures and other actions incidental thereto; the cost of the acquisition of all property; the cost of demolishing, removing or relocating any buildings or structures on lands so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved or relocated; the cost of all systems, facilities, machinery, apparatus and equipment, financing charges, interest prior to, during and after Construction to the extent not paid or provided for from Revenues or other sources; the cost of engineering and architectural surveys, plans and specifications; the cost of consultants’ and legal services; the cost of lease guarantee or bond insurance; other expenses necessary, reasonably related or incidental to the Construction of such Water Project and the financing of the Construction thereof, including the cost of Credit Facilities, the amounts authorized in the Resolution to be paid into any reserve or other special fund from the proceeds of Bonds and the financing of the placing of any Water Project in operation, including reimbursement to any municipality, state agency, the State, the United States of America, or any other person for expenditures that would be costs of such Water Project hereunder; and all claims arising from any of the foregoing.

“Costs of Issuance” shall mean all items of expense, directly or indirectly payable or reimbursable and related to authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, costs of any Credit Facility relating to the Bonds and any other cost, charge or fee in connection with the original issuance of Bonds.

“Counsel” means an attorney or a firm of attorneys admitted to practice law in the highest court of any state in the United States of America or in the District of Columbia.

“Credit Facility” shall mean a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution that provides funds for (i) the direct payment of the Principal Installments of and interest on such Bonds when due or (ii) the payment of the Principal Installments of and interest on such Bonds in the event amounts otherwise pledged to the payment thereof are not available when due or (iii) the payment of the Tender Option Price of any Option Bond, which may be tendered to the Authority for purchase or payment in accordance with the Supplemental Resolution authorizing such Option Bond (in any case, regardless of whether such Credit Facility provides funds for any other purpose).

“Debt Service” for any Fiscal Year or part thereof shall mean, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest payable during such Fiscal Year

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

“Debt Service Fund” shall mean the Debt Service Fund established pursuant to Section 502(a) of the Resolution.

“Debt Service Reserve Fund” shall mean the Debt Service Reserve Fund and the Accounts therein established pursuant to Section 502 of the Resolution.

“Debt Service Reserve Requirement” shall mean, as of any date of calculation, and for any Fiscal Year, the amount equal to the lesser of (i) maximum Aggregate Debt Service in the current or any future Fiscal Year on all Bonds Outstanding, (ii) 125% of average annual Aggregate Debt Service on all Bonds Outstanding or (iii) 10% of the principal amount of the Bonds; provided, however, that, if (i) the payment of the Principal Installments of or interest on any Series of Bonds or portion thereof is secured by a Credit Facility or (ii) the payment of the Tender Option Price of an Option Bond of a Series is secured by a Credit Facility, the Supplemental Resolution authorizing such Series may provide that the Debt Service Reserve Requirement for the Bonds so secured shall be an amount not in excess of the maximum Debt Service on such Bonds in the current or any future Fiscal Year. The Debt Service Reserve Requirement may be satisfied in whole or in part by a Financial Guaranty. For purposes of calculating the Debt Service Reserve Requirement, the cost of any applicable Financial Guaranty shall be included as if it were interest on the Bond of the related Series. For the purpose of calculating the Debt Service Reserve Requirement for any Series of Variable Rate Bonds, the maximum Debt Service on such Series shall be determined by reference to the Pro Forma Bond Issue for such Series set forth in the Supplemental Resolution authorizing such Series.

“Defeasance Obligations” shall mean the obligations described in clause (ii) of the definition of Investment Securities in the Resolution.

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

“Director” shall mean, as of any date, the duly appointed and acting Commissioner of Administration and Finance of the City, or the person duly appointed and authorized to act on behalf of such Director, or, if there shall no longer be such an office, the duly appointed official of the City succeeding to the duties and functions of such Director.

“Disbursement Request” shall mean the written request signed by an Authorized Representative of the Authority and required to be delivered to the Trustee pursuant to Section 503 of the Resolution to effect disbursements from the Construction Fund and shall be in substantially the form set forth in Exhibit A to the Resolution.

“DTC” means The Depository Trust Company, New York, New York.

“Event of Default” shall mean any event specified in Section 1001 of the Resolution.

“Fiduciary” shall mean the Trustee or any Paying Agent or Depository.

“Financial Guaranties” shall mean one or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions, the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating of Aa2 or better by Moody’s Investors Service Inc. and AA or better by Standard & Poor’s Corporation; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers, the obligations insured by which are eligible (at the time of issuance of such policy) for a rating of Aa or better by Moody’s Investors Service Inc. and AA or better by Standard & Poor’s Corporation; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Bonds in the manner provided in Section 508 of the Resolution; and providing further that any such Financial Guaranty must be drawn upon, on a date that is at least thirty (30) days prior to the expiration date of such Financial Guaranty, in an amount equal to the deficiency that would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration date as provided in a related Supplemental Resolution.

“Financing Agreement” shall mean the Agreement.

“Fiscal Year” shall mean the twelve-month period commencing July 1 of each year; provided, however, that the Authority, the Board and the City may, from time to time, mutually agree on a different twelve-month period as the Fiscal Year, in which case July 1, when used therein with reference to a Fiscal Year, shall be construed to mean the first day of the first calendar month of such different Fiscal Year.

“Fixed Rate Bond” shall mean, as of any date of determination, any Bond bearing interest at a fixed rate for the remainder of its term.

“Fund” shall mean any fund established pursuant to Section 502 of the Resolution.

“General Account” shall mean the Buffalo Water Authority Board General Account established within the Local Water Fund by, and held in the custody of, the Board pursuant to Section 4.2(A)(5) of the Agreement.

“Industry Standards” shall mean requirements established by applicable laws for the operation and maintenance of the System, or in the absence or irrelevance of such requirements, performance consistent with practices and/or policies of comparable municipal water systems in the State.

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

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

(ii) (A) any bonds or other obligations, which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation that has been or may hereafter be created pursuant to an Act of Congress as an

agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A) of this clause (ii);

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

(iv) banker's acceptances or certificates of deposit issued by a commercial bank with its principal place of business within the State and having capital and surplus of more than \$100,000,000;

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

(vi) investments that are

1. Repurchase agreements:

(A) With any domestic bank the long term debt of which is rated "AA" or better by S&P (so long as an opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and that such bank is subject to FIRREA), or any foreign bank the long-term debt of which is rated at least "AA" by S&P and "Aaa" by Moody's, or "AAA" by S&P and at least "Aa" by Moody's; provided the term of such repurchase agreement is for one year or less; or

(B) With (1) Commercial banks, or (2) any broker-dealer with "retail customers", in either case, which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC), or (3) any other entity approved by all issuers of Credit Facilities for Outstanding Bonds, provided that:

(i) The market value of the collateral is maintained for United States Treasury Securities at the levels shown below under "Collateral Levels for United States Treasury Obligations" and;

(ii) Failure to maintain the requisite collateral percentage will require the Authority or the Trustee to liquidate the collateral;

(iii) The Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable State and Federal laws (other than by means of entries on the transferor's books);

(iv) The repurchase agreement shall state and an opinion of counsel acceptable to the Trustee shall be rendered that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(v) The transferor represents that the collateral is free and clear of any third-party liens or claims;

(vi) An opinion of counsel acceptable to the Trustee is rendered that the repurchase agreement is a “repurchase agreement” as defined in the United States Bankruptcy Code;

(vii) There is or will be a written agreement governing every repurchase transaction;

(viii) The Authority and the Trustee represents that it has no knowledge of any fraud involved in the repurchase transaction; and

(ix) The Authority and the Trustee receives the opinion of counsel acceptable to the Trustee (which opinion shall be addressed to the Authority and all issuers of Credit Facilities for Outstanding Bonds) that such repurchase agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms; and

2. Investment agreements with (A) a domestic bank the long-term debt of which is rated at least “AA” by S&P and “Aa” by Moody’s (so long as an opinion is rendered that the bank is subject to FIRREA); or (B) a foreign bank the long-term debt of which is rated “AAA” by S&P and at least “Aa” by Moody’s, or at least “AA” by S&P and “Aaa” by Moody’s; provided, that, by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Authority or the Trustee give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Resolution;

(e) the term of the investment agreement does not exceed seven years;

(f) the Authority or the Trustee receives the opinion of domestic counsel acceptable to the Trustee (which opinion shall be addressed to the Authority and all issuers of Credit Facilities for Outstanding Bonds) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, all issuers of Credit Facilities for Outstanding Bonds;

(g) the investment agreement shall provide that if during its term:

(i) the provider’s rating by either S&P or Moody’s falls below “AA” or “Aa”, respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the all issuers of Credit Facilities for Outstanding Bonds), within 10 days of receipt of such

direction, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable State and Federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") United States Treasury Obligations that are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (b) repay the principal of and accrued but unpaid interest on the investment (the choice of (a) or (b) above shall be that of the Authority or Trustee, as appropriate), and

(ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A", or, with respect to a foreign bank, below "AA" or "Aa" by S&P or Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by all issuers of Credit Facilities for Outstanding Bonds), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee;

(h) the investment agreement shall state and an opinion of counsel acceptable to the Trustee shall be rendered that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; and

(i) the investment agreement must provide that if during its term:

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee (who shall give such direction if so directed by all issuers of Credit Facilities for Outstanding Bonds), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

Investment securities can also include other investments approved by all issuers of Credit Facilities for Outstanding Bonds to the extent permitted by applicable law.

Collateral Levels For United States Treasury Obligations

		Remaining Maturity				
		1 year or less	5 years or less	10 years or less	15 years or less	30 years or less
Frequency	of valuation					
Daily.....		102	105	106	108	114
Weekly		103	111	112	114	120
Monthly.....		105	117	120	125	133
Quarterly		107	120	130	133	140

Valuation Requirements:

(1) On each valuation date, the Authority, the Trustee, or the custodian who shall confirm to the Authority and the Trustee shall value the market value (exclusive of accrued interest) of the collateral, which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment and unpaid accrued interest thereon that is being secured;

(2) In the event the collateral level is below its collateral percentage on a valuation date, such percentage shall be restored within the following restoration periods: one business day for daily valuations, two business days for weekly and monthly valuations, and one month for quarterly valuations.

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

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

“Management Agreement” shall mean the Management Agreement dated as of July 1, 2010, by and between the Board and Veolia, as amended from time to time.

“Management and Operations Fee” means the fee payable to Veolia pursuant to the Management Agreement.

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

“Minimum Monthly Balance” shall mean, as calculated in accordance with Section 4.3 of the Agreement, an amount equal to the sum of the aggregate amounts of Debt Service that has accrued with respect to all Series of Bonds, calculating the Debt Service that has accrued with respect to each Series of Bonds as an amount equal to the sum of (A) the interest on the Bonds of such Series that has accrued and is unpaid and that will have accrued by the end of the then current calendar month, reduced by the amount, if any, then on deposit in the Capitalized Interest Account in the Debt Service Fund, and (B) that portion of the next due Principal Installment for the Bonds of such Series that would have accrued (as deemed to accrue in the manner interest accrues) by the end of the then current calendar month.

“Ongoing Project Account” shall mean the Buffalo Water Board Ongoing Project Account established within the Local Water Fund by, and held in the custody of, the Board pursuant to Section 4.2(A)(4) of the Agreement.

“Operating Expenses” shall mean all reasonable or necessary current expenses of the City or the Board for operating, maintaining, repairing, and managing the System, including debt service on all of the City’s outstanding general obligation bonds (or portions thereof), to the extent that the proceeds of such outstanding bonds were used for water related purposes, all salaries, administrative, general, commercial, architectural, engineering, advertising, public notices, auditing, billing, collection and enforcement and legal expenses, insurance and surety bond premiums, consultants fees and charges, payments to pension, retirement, health and hospitalization funds, any taxes or assessments, which may lawfully be imposed on the System or the income or operation thereof, payments to any taxing jurisdiction (including the City) in lieu of taxes, costs of public hearings, ordinary and current rentals of equipment or other property, hydrant rentals, lease payments for real property or interest therein, usual expenses of maintenance and repair (including replacements), expenses, liabilities and compensation of the Bank or any other depository of Board funds, the amount of any judgment or settlement arising out of a tort claim related to the ownership, Construction, repair, administration, operation or maintenance of the System, payments to independent contractors of the Board or the City related to the operation, maintenance, repair (including replacements), administration and management of the System and all other expenses necessary, incidental or convenient for the efficient operation of the System, but only to the extent properly attributable to the Board or the System, including but not limited to all amounts payable pursuant to Section 6.1(B) of the Operation Agreement.

“Operation Account” shall mean the Buffalo Water Board Operation Account established within the Local Water Fund by, and held in the custody of, the Board pursuant to Section 4.2(A)(2) of the Agreement.

“Operation Agreement” shall mean that portion of the Agreement entitled the Operation Agreement dated as of September 24, 1992 and amended as of August 1, 1997 between the City and the Board as the same may be further amended or supplemented.

“Operation and Maintenance Reserve Account” shall mean the account by that name established in the Local Water Fund by, and held in the custody of the Board pursuant to the Agreement.

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

“Outstanding”, when used with reference to Bonds, shall mean, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (a) any Bonds cancelled by the Trustee at or prior to such date;
- (b) any Bond (or portion thereof) for the payment or redemption of which there shall be set aside and held in trust hereunder either:
 - (i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,

(ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or

(iii) any combination of (i) and (ii) above,

and, if such Bond or portion thereof is to be redeemed, for which notice of redemption has been given as provided in Article VI hereof, or the applicable Supplemental Resolution, or provision satisfactory to the Trustee has been made for the giving of such notice;

(c) any Bond in lieu of or in substitution for which other Bonds have been authenticated and delivered; and

(d) any Bond deemed to have been paid as provided in Section 1201(b) of the Resolution.

“Parity Reimbursement Obligation” shall mean a Reimbursement Obligation, the payment of which is secured by a pledge of, and a lien on, Revenues on a parity with the lien created by Section 501 of the Resolution.

“Paying Agent” shall mean any paying agent for the Bonds of any Series, and its successor or successors and any other person that may at any time be substituted in its place pursuant to the Resolution.

“Permitted Encumbrances”, when used with reference to the System, shall mean (a) any and all liens, encumbrances, security interests or other defects in or clouds on title that may exist on the Acquisition Date, (b) utility, access and other easements, rights of way and exceptions that do not materially impair the operation or maintenance of the System or the Revenues therefrom, (c) mechanics’, materialmen’s, warehousemen’s, carriers’ and other similar liens, to the extent permitted by law, and liens for taxes at the time not delinquent or being contested, and (d) any lien or security interest that the Board warrants with the written consent of the City and the Authority.

“Principal Installment” shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds (including (x) for Capital Appreciation Bonds, any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the “principal amount” with respect to any Capital Appreciation Bonds issued thereunder, (y) the Tender Option Price of any Option Bonds, which may be tendered to the Authority for purchase or payment prior to the stated maturity thereof in accordance with the terms of the Supplemental Resolution authorizing such Option Bonds, unless such amount is secured by a Credit Facility that is not in default and (z) the principal amount of any Parity Reimbursement Obligation) of such Series due (or so tendered for purchase or payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

“Principal Office” means, with respect to the Trustee, the address of the Trustee identified as its address in the Twenty-Eighth Supplemental Resolution otherwise notified in writing by such Trustee to the Authority, the Authority and the Trustee.

“Prior Note” shall have the meaning accorded such term in the preambles to the Resolution.

“Pro Forma Bond Issue” shall mean, when used with reference to the Debt Service Reserve Requirement for a Series of Variable Rate Bonds, the hypothetical fixed rate long term bond issue set forth in the Supplemental Resolution authorizing such Series, having (i) the same maturities (and sinking fund provisions, if any) as the Series of Variable Rate Bonds to which it relates and (ii) such interest rate or rates as the Authority shall reasonably deem to be the equivalent of the rates that would have been borne by such Series of Variable Rate Bonds if such Series had been issued as a Series of Fixed Rate Bonds.

“Project” shall mean any Water Project constituting a part of the System.

“Projected Debt Service” shall mean, for any Fiscal Year or part thereof as of any date of calculation and with respect to any Projected Series of Bonds, an amount (set forth by the Authority in the Authority Budget as provided in Section 6.4 of the Agreement), equal to the Debt Service estimated by the Authority to be payable during such Fiscal Year or part thereof on such Projected Series of Bonds.

“Projected Series of Bonds” or “Projected Series” shall mean any Series of Bonds described in an Authority Budget as anticipated to be issued in the Fiscal Year to which such Authority Budget relates.

“Purchase Contract” shall mean the contract between Underwriter and the Authority for the purchase of the Series 2015-A Bonds, dated May 21, 2015.

“Rate Consultant” shall mean any independent accountant or firm of independent accountants, or management consultant or firm of management consultants, or independent engineer or firm of independent engineers (which must not be the firm then serving as the Consulting Engineer), selected by the Board in consultation with the Authority and approved by the City.

“Rating Agencies” shall mean Moody’s Investors Service Inc. and Standard & Poor’s Corporation and their respective successors and assigns. The Authority may appoint any nationally recognized securities rating agency in addition to or as a replacement for one of the Rating Agencies defined herein.

“Rebate Fund” shall mean the Rebate Fund established pursuant to Section 502(a) of the Resolution.

“Record Date” shall mean, for any Series of Bonds, the date defined as the Record Date in the Supplemental Resolution authorizing such Series of Bonds.

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

“Refunding Bond” shall mean any Bond authenticated and delivered on original issuance pursuant to Section 206 or Section 207 of the Resolution for the purpose of refunding any Outstanding Bonds, or thereafter authenticated and delivered in lieu of or substitution for such Bond pursuant to the Resolution.

“Reimbursement Obligation” shall mean the obligation of the Authority described in Section 209(b) hereof to directly reimburse the issuer of a Credit Facility for amounts advanced on behalf of

the Authority by such issuer thereunder, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

“Representative” means the representative of the Board designated as provided in Section 7.5 of the Management Agreement.

“Required Deposits” shall mean, for any Fiscal Year, amounts, if any, payable into the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinated Indebtedness Fund (including amounts required to be transferred from the Authority Expense Fund into the Rebate Fund), but only to the extent such payments are required to be made from Revenues pursuant to the Resolution.

“Reserve for Expenses” shall have the meaning set forth in paragraph SECOND of Section 505 of the Resolution.

“Resolution” shall mean the Water System General Revenue Bond Resolution, adopted by the Authority on November 20, 1992, as the same may be amended or supplemented from time to time by one or more Supplemental Resolutions.

“Revenue Fund” shall mean the Revenue Fund established pursuant to Section 502 (a) of the Resolution.

“Revenues” shall mean (a) all the rents, fees, charges, payments and other income and receipts derived by the Board from users of the System, and (b) all investment proceeds and proceeds of insurance, condemnation, sale or other disposition of the System or any part thereof received by the Board (other than the proceeds of insurance with respect to the damage or destruction of all or any portion of the System), together with all operating aid therefor from any governmental entity, Federal, State or local, to the Board, but shall not include (w) amounts required to be refunded because of billing or payment errors, (x) any amount attributable to any of the foregoing sources described in clause (a), which is expressly excluded by the Agreement, (y) any amount from any governmental entity, Federal, State or local, in aid of or for or with respect to the Costs of Water Projects or (z) (i) fines (excluding interest on late payments, which shall constitute Revenues), (ii) amounts from the use of water to generate electricity, (iii) amounts from the State as a result of mandatory water discharges from reservoirs, or (iv) amounts from the granting of easements, licenses, rights-of-way or other interests in the real property constituting a part of the System.

“Scope of Services” means the services to be provided by Veolia as described in the Management Agreement.

“Securities Act” means the Securities Act of 1933, as amended, and any successor thereto.

“Series” or “Series of Bonds” shall mean all of the Bonds authenticated and delivered on original issuance identified pursuant to the Supplemental Resolution authorizing such Bonds as a separate Series of Bonds and any Bonds thereafter authenticated and delivered in lieu of or in substitution therefor pursuant to the Resolution regardless of variations in maturity, interest rate or other provisions..

“Series 2015-A Bonds” shall mean the Water System Revenue and Refunding Bonds, Series 2015-A, authorized by Article II of the Twenty-Eighth Supplemental Resolution.

“Sinking Fund Installment” shall mean, as of any particular date of calculation, the amount required by the Resolution to be paid by the Authority on a future date for the retirement of Outstanding Bonds, which are stated to mature subsequent to such future date, but does not include any amount

“Special Account” shall mean one or more of the Special Accounts established in the Debt Service Reserve Fund by a Supplemental Resolution pursuant to Section 502 (b) of the Resolution.

“State” shall mean the State of New York.

“Subordinated Indebtedness” shall mean any bond, note or other evidence of indebtedness issued by the Authority in furtherance of its corporate purposes under the Act and payable from the Subordinated Indebtedness Fund.

“Subordinated Indebtedness Fund” shall mean the Subordinated Indebtedness Fund established pursuant to Section 502(a) of the Resolution.

“Subordinated Indebtedness Requirement” shall mean any amount required to be deposited in the Subordinated Indebtedness Fund by resolution of the Authority, including all payments with respect to Subordinated Indebtedness payable out of, or secured by a pledge of, amounts held in the Subordinated Indebtedness Fund.

“Supplemental Resolution” shall mean a resolution of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with Article VIII of the Resolution.

“Surplus Fund” shall mean the Surplus Fund established pursuant to Section 502(a) of the Resolution.

“System” shall mean the “Water System” as such quoted term is defined in Section 1048-b(19) of the Act.

“Tax-Exempt Obligations” shall mean Bonds issued pursuant to the Resolution, the interest on which is not included in the gross income of the recipient thereof for Federal income tax purposes under §103 of the Code.

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

“Trust Indenture Act” means the Trust Indenture Act of 1939, as amended, and any successor thereto.

“Trustee” shall mean the Trustee designated by each respective Supplemental Resolution.

“Twenty-Eighth Supplemental Resolution” shall mean the Twenty-Eighth Supplemental Resolution Supplemental Water System Revenue Refunding Bond Resolution authorizing \$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A, adopted May 20, 2015.

“Underwriters” shall mean those Underwriters described in this Official Statement under the heading “Underwriting”.

“Union Employees” shall mean the public employees in the Division of Water of the City of Buffalo in graded and classified civil service positions holding the job titles listed in Exhibit E to the Management Agreement, as such job titles and employees may change from time to time as contemplated herein.

“Variable Rate Bond” shall mean, as of any date of determination, any Bond on which the interest rate borne thereby may vary during any part of its remaining term.

“Veolia” shall mean Veolia Water North America-Northeast, LLC, a Delaware limited liability company.

“Water Project” shall have the meaning ascribed thereto in Section 1048-b(18) of the Act and undertaken pursuant to an agreement by and among the Authority, the Board and the City pursuant to Section 1048-i of the Act.

SUMMARY OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution. This summary does not purport to be complete and is subject in all respects to the provisions of and is qualified in its entirety by reference to the Resolution.

Pledge of Revenues and Funds. The Authority pledges for the payment of the Principal Installment or Redemption Price of and any interest on the Bonds, in accordance with their terms and the provisions of the Resolution: (i) all Revenues (except investment earnings on any Funds or Accounts created under the Resolution, which are on deposit in or are required to be deposited in the Rebate Fund), (ii) all moneys or securities in any of the Funds and Accounts created under the Resolution, and (iii) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Resolution; subject only to the provisions of the Resolution, the Act and the Agreement permitting the application of such amounts for or to the purposes and on the terms and conditions therein set forth. It is the intention of the Authority that, to the fullest extent permitted by law, such pledge shall be valid and binding from the time when it is made; that the Revenues, moneys, securities and other funds so pledged, and then or thereafter received by the Authority, shall immediately be subject to the lien of such pledge without any physical delivery or further act; and that the obligation to perform the contractual provisions therein contained shall have priority over any or all other obligations and liabilities of the Authority and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

As further security for the payment of the Bonds, the Authority, under the Resolution, assigns, transfers and pledges to the Trustee all of its rights and interests under and pursuant to the Agreement (excluding rights to notice and other procedural rights, its right to indemnification and rights and interest not material to bondholders), including, without limiting the generality of the foregoing, the present and continuing right: (i) to claim, collect or receive from the Board, all Revenues thereunder, (ii) to bring actions and proceedings thereunder for enforcement of such right of collection, and (iii) to do any and all things that the Authority is or may become entitled to do under the Agreement; provided that such assignment shall not impair or diminish any obligation of the Authority under the Agreement.

The Bonds are special obligations of the Authority payable solely from the Revenues and other amounts described in the Resolution and do not and will not constitute an indebtedness of the State, the City, or the Board and neither the State, the City nor the Board shall be in any way liable thereon. (Sections 203 and 501)

Establishment of Funds and Accounts. The Resolution establishes the following Funds:

- (1) Construction Fund;
- (2) Revenue Fund;
- (3) Debt Service Fund;
- (4) Authority Expense Fund;
- (5) Debt Service Reserve Fund;
- (6) Subordinated Indebtedness Fund;
- (7) Surplus Fund; and
- (8) Rebate Fund.

The Resolution establishes in the Debt Service Reserve Fund a separate account known as the “Common Account”, and provides that any Supplemental Resolution, which authorizes a Credit Facility may establish one or more “Special Accounts” in the Debt Service Reserve Fund. The Resolution also establishes in the Debt Service Fund a separate account to be known as the “Capitalized Interest Account”.

Unless otherwise provided in the Resolution, the Trustee shall hold all of the Funds and Accounts, except the Authority Expense Fund, which shall be held by the Authority. (Section 502)

Construction Fund. The Authority shall deposit from time to time in the Construction Fund the net proceeds from the sale of each Series of Bonds and make the deposits in the Funds and Accounts required by the applicable Supplemental Resolutions. The Authority shall also deposit from time to time in the Construction Fund any other amounts required to be deposited therein pursuant to the Resolution or the Agreement, including amounts received by the Authority for or in connection with the System and determined by the Authority to be deposited therein. Any proceeds of insurance maintained by the Board or the City against physical loss of or damage to the System, or of contractors’ performance bonds pertaining to the construction of the System, shall also be paid into the Construction Fund.

Except as otherwise provided, amounts in the Construction Fund may only be expended to pay Costs of Water Projects (including Costs of Issuance). The Trustee shall make payments from the Construction Fund, except as otherwise provided, of amounts only upon receipt of a Disbursement Request signed by an Authorized Representative of the Authority.

To the extent that other moneys are not available therefor in any other Fund or Account, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due. (Section 503)

Allocation of Revenues - Revenue Fund. The Authority shall cause all Revenues received from the Board pursuant to the Agreement to be paid to the Trustee and deposited promptly upon receipt in the Revenue Fund. There shall also be deposited in the Revenue Fund all other amounts required by the Resolution or the Agreement to be so deposited. (Section 504)

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

(i) to the Debt Service Fund all such amounts until the amount therein on deposit in such month equals the Minimum Monthly Balance for such month for all Series of Bonds Outstanding;

(ii) from the balance, if any, remaining in such month after making the deposits required in (i) above, to the Authority Expense Fund the entire balance until the total on deposit therein in such month is equal to the product obtained by multiplying (A) the sum of the Authority Expenses for the then current Fiscal Year plus (if included in the Authority Budget for the then current Fiscal Year) an amount (the "Reserve for Expenses") equal to one-sixth (1/6) of such Authority Expenses by (B) a fraction, the numerator of which is 12 minus the number of full months, excluding the month of calculation, remaining in the Fiscal Year, and the denominator of which is 12;

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

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

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

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

In any event, the Trustee shall, as soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, call, for redemption, a sufficient amount of Bonds of like Series and maturity to complete the retirement of the principal amount specified for such Sinking Fund Installment of such Bonds whether or not it then has moneys in the Debt Service Fund to pay the

applicable Redemption Price thereof on the redemption date. The Trustee shall apply to the redemption of the Bonds on each such redemption date, the amount required for the redemption of such Bonds. (Section 506)

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

Debt Service Reserve Fund. The Resolution establishes a Debt Service Reserve Fund and a Common Account therein. In addition, the Resolution provides that any Supplemental Resolution that provides for a Credit Facility to secure the payment of the principal, interest or Tender Option Price of any Bonds may establish one or more "Special Accounts" in the Debt Service Reserve Fund. From the proceeds of each Series of Bonds there shall be deposited in the Debt Service Reserve Fund the amount, if any, necessary to make the amount on deposit therein, together with any applicable Financial Guaranty, equal to the Debt Service Reserve Requirement, after giving effect to the issuance of such Bonds; and all such amounts will be credited to the Common Account, unless a Supplemental Resolution requires a deposit in a Special Account. Amounts on deposit in each of the Accounts in the Debt Service Reserve Fund shall be applied, to the extent other funds are not available therefor pursuant to the Resolution, to pay the Principal Installments of, and interest on the Bonds to which such Account relates when due. Amounts so applied shall be derived first from cash or Investment Securities on deposit, and second from draws and demands on Financial Guaranties in accordance with the terms thereof and of the Supplemental Resolution providing for such guaranty.

If, as of June 30 of each year, the amount in any Account in the Debt Service Reserve Fund exceeds the applicable Debt Service Reserve Requirement after giving effect to any Financial Guaranty deposited in such Fund, the Trustee shall withdraw from such Account the amount of any excess therein over the applicable Debt Service Reserve Requirement as of the date of such withdrawal and deposit the moneys so withdrawn into the Surplus Fund. If, as of February 1 of each year the amount in any Account in the Debt Service Reserve Fund is less than the applicable Debt Service Reserve Requirement and, to the extent that such deficiency has not been made up by March 1 of such year by either (i) deposits pursuant to Section 505 of the Resolution, or (ii) an increase in the market value of the Investment Securities therein, or (iii) a combination of (i) and (ii), the Authority shall, in its Authority Budget for the ensuing Fiscal Year, include the amount necessary to make up such deficiency as a Required Deposit.

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

In lieu of the required deposits and transfers to any Account in the Debt Service Reserve Fund, the Authority may cause to be deposited into such Account in the Debt Service Reserve Fund, Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in such Account in the Debt Service Reserve Fund

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

In the event of the refunding of any Bonds, the Trustee shall, upon the written direction of the Authority, withdraw from the Debt Service Reserve Fund all or any portion of amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts as provided in such written direction; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to Section 1201 of the Resolution, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal shall not be less than the Debt Service Reserve Requirement. (Section 508)

Subordinated Indebtedness Fund.

(a) Amounts on deposit in the Subordinated Indebtedness Fund shall be applied by the Trustee solely to the maintenance of reserves for, or the payment of, Subordinated Indebtedness, including, but not limited to, payments due and payable under any Qualified Swap Agreement, or as otherwise provided by the Resolution of the Authority authorizing each issue of Subordinated Indebtedness or each Qualified Swap Agreement.

(b) If, at any time, the amounts in the Debt Service Fund or in any Series Account in the Debt Service Reserve Fund shall be less than the current requirements thereof, after the payments required under Section 509(a) have been made, the Trustee shall withdraw from the Subordinated Indebtedness Fund and deposit in the Debt Service Fund, as the case may be, the amount necessary (or all the monies in said Fund, if less than the amount necessary) to make up such deficiency.

Surplus Fund. The Trustee shall, on each Bond Payment Date, apply moneys credited to the Surplus Fund in the following amounts: (i) to the Debt Service Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in such Fund and (ii) to the Debt Service Reserve Fund the amount, if any, necessary (or all the moneys in the Surplus Fund if less than the amount necessary) to make up any deficiency in the amount required to be on deposit in any Account in such Fund. Such transfer shall be made notwithstanding any other provisions of the Resolution requiring deposits in such Funds. Amounts on deposit in the Surplus Fund on the last day of a Fiscal Year shall be withdrawn from such Fund and transferred to the Board for deposit in the Local Water Fund. (Section 510)

Rebate Fund. Notwithstanding any other provisions of Article V of the Resolution, the Authority shall instruct the Trustee to deposit investment earnings on any Funds or Accounts established under the Resolution into the Rebate Fund in accordance with the Arbitrage and Use of Proceeds Certificate. The Authority must determine the amounts (and dates of payment) subject to rebate to the United States Government pursuant to the provisions of the Code (in order to ensure that interest on any Bonds, which are issued as Tax Exempt Obligations, continues to be excludable from

Federal income taxation) in accordance with the Arbitrage and Use of Proceeds Certificate. Amounts required to be rebated must be withdrawn from the Rebate Fund and paid to the United States Government. The Authority must promptly pay, from moneys that are on deposit in the Revenue Fund, the Surplus Fund or such other amounts in any other Fund that are available for such purpose, the amount necessary to make up any deficiency in the Rebate Fund for any required payment to the United States Government. (Section 511)

Subordinated Indebtedness. The Authority may issue Subordinated Indebtedness payable out of and secured by a pledge of and lien on amounts in the Subordinated Indebtedness Fund available for such payment. Such Subordinated Indebtedness, however, shall be issued, and the proceeds of such issue applied, only for the purposes set forth in the Resolution and shall be secured by a pledge subordinate in all respects to the pledge created by the Resolution as security for the Bonds. The Authority's obligations under any Qualified Swap shall constitute Subordinated Indebtedness payable out of and secured by a pledge of and lien on amounts in the Subordinated Indebtedness Fund subject and subordinate in all respects to the pledge created by the Resolution as security for the Bonds and on a parity with the pledge created by the Resolution for other Subordinated Indebtedness. The Authority shall include amounts payable under a Qualified Swap Agreement in the Authority Budget. Nothing in any Qualified Swap Agreement shall prevent the Authority from issuing Bonds or Subordinated Indebtedness or entering into any Parity Reimbursement Obligation in accordance with the Resolution or from making disbursements from any Fund in accordance with the Resolution, including, in particular, disbursements from the Surplus Fund in accordance with Section 510 of the Resolution.

Notwithstanding any other provisions of the Resolution, for the purposes of the definition of Debt Service Reserve Requirement and Sections 206 and 207 hereof, the Authority may calculate Debt Service and Required Deposits with respect to any Bonds that are Outstanding or proposed to be issued using the fixed interest rate on any floating-to-fixed Qualified Swap Agreement for the principal amount of Bonds equal to the notional amount set forth in such Qualified Swap Agreement and the principal amount of such Bonds will not constitute Variable Rate Bonds for the purposes of the definition of Debt Service Reserve Fund Requirement and Sections 206 and 207 hereof, but only for the period during which such Qualified Swap Agreement is in effect.

Notwithstanding the foregoing, if, at any time, the long-term senior unsecured debt obligations or financial program rating of the Qualified Swap Provider (or its Credit Support Provider, as defined in the Master Agreement) cease to be rated at least "BBB" by S&P or "Baa2" by Moody's, then for the purposes of the definition of Debt Service Reserve Requirement and Sections 206 and 207 hereof, the Authority shall calculate Debt Service and Required Deposits with respect to any Bonds that are Outstanding or proposed to be issued, assuming that the principal amount of such Bonds constitute Variable Rate Bonds for the purposes of the definition of Debt Service Reserve Fund Requirement and Sections 206 and 207 hereof, but only for the period during which the counterparty is rated below "BBB" or "Baa2". (Section 512)

Depositaries. All moneys or securities held by the Trustee shall constitute trust funds and the Trustee may, and shall, if directed by the Authority, deposit such moneys with one or more Depositaries. All moneys or securities held by the Authority in the Authority Expense Fund shall be held in trust and shall be deposited with one or more Depositaries. All moneys or securities deposited under the provisions of the Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

Each Depositary holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association (having its principal

office within the State), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution. (Section 513)

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

Except as otherwise authorized by a Supplemental Resolution, interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Rebate Fund, Construction Fund and the Debt Service Reserve Fund, shall be paid into the Revenue Fund as and when received. Interest earned on monies on deposit in the Rebate Fund shall be held in the Rebate Fund until required for payment to the United States Government. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in (i) the Debt Service Reserve Fund shall be paid into the Surplus Fund, and (ii) the Construction Fund shall be paid to the Board for deposit in the Local Water Fund quarterly, on the 15th day of each July, October, January and April of each Fiscal Year, upon receipt of a written direction of the Authority to make such payment except that amounts in excess of that allowable by the Arbitrage and Use of Proceeds Certificate shall be paid directly into the Rebate Fund.

All Investment Securities acquired with moneys in any Fund or Account, including any Fund or Account held by the Authority, shall be held by the Trustee in pledge or by a Depository as agent in a pledge in favor of the Trustee.

Investments purchased with funds on deposit in the Debt Service Fund shall have an aggregate weighted term to maturity of not greater than ten years. (Section 515)

Additional Bonds. The Authority may issue Bonds from time to time without limitation as to amount except as provided in the Resolution or as may be limited by law to generate funds sufficient to meet the Costs of Water Projects, to make deposits in the Fund and Accounts or to refund Outstanding Bonds, Bond Anticipation Notes, Subordinated Indebtedness or outstanding bonds of the City issued to pay the Capital Costs of the System. All Bonds shall be issued subject to the terms, conditions and limitations established in the Resolution and in one or more Series as therein provided.

Bonds that are executed and delivered to the Trustee shall be authenticated only upon receipt of, among other items:

- (a) a certified copy of the Supplemental Resolution authorizing such Series;

(b) (i) in the case of the Series 1992 Bonds, an executed copy of the Agreement; and (ii) in the case of any subsequent Series of Bonds, an executed copy of any amendment or supplement to the Agreement not theretofore delivered to the Trustee;

(c) except in the case of any Series of Bonds issued prior to January 1, 1993 and any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for either of the last two full Fiscal Years immediately preceding the Fiscal Year in which such Bonds are to be issued and (ii) the Aggregate Debt Service during such Fiscal Year for which Revenues are set forth pursuant to clause (i) above (excluding from Aggregate Debt Service any Principal Installment or portion thereof which was paid from sources other than Revenues) and (iii) the sum of the Operating Expenses and the Required Deposits for such Fiscal Year, and showing that the amount set forth in (i) is at least equal to the sum of (x) an amount equal to 115% of the amount set forth in (ii) and (y) an amount equal to 100% of the amount set forth in (iii);

(d) except in the case of any Series of Refunding Bonds issued pursuant to Section 207 of the Resolution, a Certificate of the Consulting Engineer setting forth the projected Operating Expenses for each of the five Fiscal Years following the Issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued);

(e) except in the case of any Series of Refunding Bonds issued pursuant to Section 207, a Certificate, signed by an Authorized Representative of the Authority setting forth the estimated Required Deposits for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued); and

(f) except in the case of any Series of Refunding Bonds issued pursuant to Section 207, a certificate of the Rate Consultant (i) setting forth the estimated Revenues for each of the five Fiscal Years following the issuance of such Series of Bonds (plus the Fiscal Year in which such Bonds are issued) after giving effect to any increases or decreases in rates, fees and charges projected for such Fiscal Years and (ii) showing for each such Fiscal Year that the estimated Revenues for such Fiscal Year will be at least equal to the sum of (A) 115% of the maximum estimated Aggregate Debt Service on all Bonds then Outstanding including the Bonds then to be issued, and (B) 100% of the sum of the projected Operating Expenses, Authority Expenses and Required Deposits, as shown on the Certificate of the Consulting Engineer delivered pursuant to paragraph (d) above and the Certificate of the Authority delivered pursuant to paragraph (e) above, respectively. (Sections 204, 206)

Refunding Bonds. One or more Series of Refunding Bonds may be issued pursuant to Section 207 of the Resolution at any time to refund any Outstanding Bonds provided that (i) average annual Debt Service on such Series of Refunding Bonds shall not exceed the average annual Debt Service on the Bonds to be refunded and (ii) the maximum Debt Service in any Fiscal Year on such Series of Refunding Bonds shall not exceed the maximum Debt Service in any Fiscal Year on the Bonds to be refunded, all as shown in a Certificate signed by an Authorized Representative of the Authority and delivered to the Trustee prior to the authentication and delivery of such Series of Refunding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts required by the provisions of the Supplemental Resolution authorizing such Bonds. (Section 207)

Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such Series of Bonds. The principal of and interest on such notes and renewals thereof

shall be payable from the proceeds of such notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. The Authority may also pledge the Revenues to the payment of the interest on, and subject to Section 707 of the Resolution, the principal of such notes. A copy of the Resolution of the Authority authorizing such notes, certified by an Authorized Representative of the Authority, shall be delivered to the Trustee following its adoption, together with such other information concerning such notes as the Trustee may reasonably request. (Section 208)

Credit Facilities. In connection with the issuance of any Series of Bonds, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for or securing payment of all or a portion of the Principal Installments, or Redemption Price or interest due or to become due on such Bonds, providing for the purchase of such Bonds by the issuer of such Credit Facility or providing funds for the purchase of such Bonds by the Authority.

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); provided, however, that no Reimbursement Obligation shall be created until amounts are advanced on behalf of the Authority under such Credit Facility. Any such Reimbursement Obligation may be secured by a pledge of and a lien on Revenues on a parity with the lien created by Section 501 of the Resolution (a "Parity Reimbursement Obligation"); provided, however, the Authority shall not enter into a Credit Facility that would permit the creation of a Parity Reimbursement Obligation in an amount, which together with the aggregate amount of Parity Reimbursement Obligations authorized by other Credit Facilities would exceed 25% of the principal amount of the Bonds then Outstanding. All Reimbursement Obligations other than Parity Reimbursement Obligations shall be payable from the Subordinate Indebtedness Fund.

Any such Credit Facility shall be for the benefit of and secure such Series of Bonds or portion thereof, as specified in the applicable Supplemental Resolution. (Section 209)

Tax Covenants. The Authority has covenanted and agreed with the holders of the Bonds, which are issued as Tax-Exempt Obligations that (i) no part of the proceeds of any Series of such Bonds, or any other funds of the Authority, shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond," as such term is defined in the Code (an "Arbitrage Bond"), and (ii) it will not take or omit to take any actions that, if taken, or that the Authority is obligated to take but that, if not taken, would cause any Bond to be an Arbitrage Bond. The Authority shall comply with the provisions set forth in any Arbitrage and use of Proceeds Certificate or in any similar document executed by the Authority in connection with the issuance and delivery of any Bonds, which are issued as Tax-Exempt Obligations. The Authority will not take or omit to take any actions that, if taken or omitted, will cause the interest on the Bonds, which are issued as Tax-Exempt Obligations to be includable as gross income under the provisions of the Code.

Notwithstanding any other provisions of the Resolution to the contrary, so long as necessary in order to maintain the exclusion from gross income of interest on the Bonds, which are Tax-Exempt Obligations for Federal income tax purposes, the covenants contained in Section 705 of the Resolution

shall survive the payment of the Bonds and the interest thereon, including any payment or defeasance thereof pursuant to Section 1201 of the Resolution.

Accounts and Periodical Reports and Certificates. The Resolution provides that the Authority shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions under the Resolution and, which together with all other books and papers of the Authority, shall at all reasonable times and upon reasonable notice be subject to the inspection of the Trustee or the holder (or the representative of such holder duly authorized in writing) of not less than 5% in principal amount of the Bonds then Outstanding.

The Authority shall cause its books and accounts with respect to transactions under the Resolution to be audited annually, and within 90 days thereafter, copies of the reports of such audits, responsive to both §1048-y of the Act and §2800 of the State's Public Authorities Law, shall be made available for inspection by the Trustee and any holder of the Bonds (or their representatives duly authorized in writing), as well as by any provider of a Credit Facility or a Financial Guaranty. (Section 706)

Indebtedness and Liens. The Resolution provides that the Authority shall not issue any bonds, or other evidences of indebtedness, other than the Bonds, Subordinated Indebtedness and Parity Reimbursement Obligations, secured by a pledge of or other lien on the Revenues and shall not create or cause to be created any lien on such Revenues or on any amounts held by any fiduciary, under the Resolution; however, the Authority may: (i) issue notes payable from the proceeds of Bonds or other obligations for the corporate purposes of the Authority payable or secured by a pledge of Revenues derived on and after such date as the pledge of the Revenues provided in the Resolution is discharged and satisfied and (ii) issue bonds or other obligations for the corporate purposes of the Authority payable out of or secured by the pledge of amounts in the Local Water Fund, which recite on their face that such pledge of said amounts is and shall be in all respects subordinate to the provisions of and the lien and pledge created by the Resolution. (Section 707)

Agreement of the State. In accordance with Section 1048-t of the Act, the Authority agrees, for and on behalf of the State, that the State will not alter or limit the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. (Section 711)

Authority Budget. The Authority shall, on or before March 1, in each Fiscal Year, adopt and file with the Trustee, the Board and the City, a certified copy of the Authority Budget showing the Authority Expenses, the Aggregate Debt Service and the Projected Debt Service for the ensuing Fiscal Year, together with any other information required to be set forth therein by the Resolution or the Agreement. Such Authority Budget may set forth such additional information as the Authority may determine or as the Board or the City may request. If for any reason the Authority shall not have adopted the Authority Budget before such March 1, the Authority Budget for the then current Fiscal Year shall be deemed to be the Authority Budget for the ensuing Fiscal Year until a new Authority Budget is adopted. The Authority may at any time adopt an amended Authority Budget for the then current or ensuing Fiscal Year, but no such amended Authority Budget shall supersede any prior Budget until the Authority shall have filed with the Trustee, the Board and the City a copy of such amended Authority Budget. (Section 712)

Supplemental Resolutions. The Resolution permits the modification or amendment of the Resolution or of rights and obligations of the Authority and of the holders of the Bonds thereunder by a Supplemental Resolution, with the written consent of the holders of two-thirds of the principal amount of: (i) the Bonds then Outstanding and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bonds of the Series so affected and then Outstanding; however, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of such modification; provided no such modification or amendment shall change the terms of redemption, maturity of principal, installment of interest, or reduce the principal amount, Redemption Price, or rate of interest without the consent of the holder of the affected Bond, or reduce the percentages of consents required to effect any future modification or amendment.

The Authority may adopt (without the consent of any holders of the Bonds) supplemental resolutions to authorize Additional Bonds; to add to the restrictions contained in the Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the Resolution; to confirm any pledge under the Resolution of Revenues or other moneys, securities or funds; to preserve the Federal tax exemption of interest on the Bonds; or otherwise to modify any of the provisions of the Resolution (but no such other modification may be effective while any of the Bonds of any Series theretofore issued are Outstanding); or, upon the Trustee's consent, to provide for additional duties of the Trustee, to cure any ambiguity, supply any omission or to correct any defect in the Resolution, to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable, and are not contrary to or inconsistent with the Resolution as theretofore in effect, to obtain a higher rating or maintain the then existing rating assigned to the Bonds by a Rating Agency or in order to make such provision confirm to an amendment to the Agreement. (Articles VIII and IX)

Defaults and Remedies. The Resolution provides that if one or more of the following Events of Default shall occur, namely: (i) a default in the payment of the principal or Redemption Price of any Bond; (ii) a default in payment of any installment of interest on any Bond; (iii) a default by the Authority in the performance or observance of any other of its covenants, agreements or conditions in the Resolution for a period of 45 days after written notice thereof; (iv) a default under the Agreement by the Board or the City for a period of 45 days after written notice thereof; or (v) a filing of a petition for relief under any Federal or State bankruptcy or similar law by the Authority; then, upon the happening and continuance of any Event of Default, the Trustee may, and upon the written request of the holders of not less than a majority in principal amount of the Bonds Outstanding the Trustee shall, declare the principal and accrued interest on all the Bonds then Outstanding, due and payable immediately subject, however, to the possibility of rescission of such declaration and annulment of the default upon the remedying thereof.

The Authority covenants that upon the occurrence of an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys and that, upon demand of the Trustee, the Authority will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

Upon default, the Trustee may proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised

by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution. During the continuance of an Event of Default, Revenues shall be applied first, to the reasonable and proper charges and expenses of the Trustee; then (unless the principal of all of the Bonds shall have been declared payable) to the payment of all unpaid interest in the order of maturity of such Bonds, and, if the amount available is not sufficient to pay in full any installments maturing on the same date, ratably among them and then to unpaid principal or Redemption Price, in the order of their due dates, and, if the amount available is insufficient to pay in full all the Bonds due on any date, then ratably among them; and if all of the principal of the Bonds shall be due and payable, ratably to the payment of unpaid principal and interest, without preference or priority of interest over principal, principal over interest or of any Bond or installment over any other Bond or installment, without any discrimination or preference; provided, however, that the Authority may, through any Supplemental Resolution, provide with an issuer of a Credit Facility, that upon an Event of Default application of moneys after default shall be prioritized: (1) to the Trustee for its reasonable expenses, (2) to the payment of interest due and owing, (3) to the payment of principal due and owing, (4) to the issuer of such Credit Facility, amounts owed to such issuer that are not covered by (2) and (3) above, and (5) to the Authority for application in accordance with the provisions of the Resolution.

No Bondholder has any right to institute suit to enforce any provision of the Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by the holders of at least a majority in principal amount of the Bonds to take such action and has been offered adequate security and indemnity and has failed to commence such suit in the manner provided in the Resolution; provided, however, that in the event the Authority enters into a Credit Facility pursuant to a Supplemental Resolution with respect to a Series of Bonds, such Supplemental Resolution may provide that the issuer of such facility has the right to give notice of an Event of Default. The right to appoint a statutory trustee under Section 1048-p of the Act is expressly abrogated. (Article X)

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any holder to enforce such payment of such Bond. Notwithstanding the previous sentence, the Authority may, through a Supplemental Resolution, provide with an issuer of a Credit Facility that such issuer shall have the right to direct remedies other than acceleration for purposes of Article X of the Resolution. (Article X)

Defeasance of Bonds. Any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if (i) in the case of any Bonds to be redeemed prior to their maturity, the Authority shall have given to the Trustee irrevocable instructions accepted in writing by the Trustee to publish on such date the notice of redemption therefor (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption), (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Obligations the principal of and the interest on which, when due, without reinvestment, will provide moneys, which, together with any moneys deposited, shall be sufficient to pay when due the principal or Redemption Price (if applicable) and interest due and to become due on said Bonds and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Bonds in accordance with the Resolution that the deposit required above has been made with the Trustee and that said Bonds are deemed paid in accordance with the Resolution and stating such maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds (other than Bonds purchased by the Trustee prior to the publication of the notice of redemption).

The Trustee shall, to the extent necessary, apply moneys toward the retirement of said Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments.

The Trustee shall, if so directed by the Authority prior to the maturity date of Bonds deemed to have been paid, which are not to be redeemed prior to their maturity date or prior to the publication of the above notice of redemption for Bonds deemed paid and to be redeemed, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and purchase such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds; and provided further, that such redemption or sale of Defeasance Obligations will not adversely affect the exemption of the interest on such Bonds from Federal income taxation and that such redemption or sale complies with the provisions of the Resolution. (Section 1201)

Swap Provisions. On September 15, 2005, the Resolution was amended by the Sixteenth Supplemental Resolution to allow the Authority to enter into various Qualified Swap transactions. The Financing Agreement between the City, the Board and the Authority was likewise amended. The Resolution provides that swap payments made by the Authority are to be paid from the Subordinated Indebtedness Fund. Swap payments received by the Authority are to be paid into the Authority Revenue Fund. The Authority may calculate Debt Service and Required Deposits with respect to any Bonds that are Outstanding or proposed to be issued using the fixed interest rate on any floating-to-fixed Qualified Swap Agreement for the principal amount of Bonds equal to the notional amount set forth in such Qualified Swap Agreement, and the principal amount of such Bonds will not constitute Variable Rate Bonds for the purposes of the definition of Debt Service Reserve Fund Requirement and Sections 206 and 207 of the Resolution, but only for the period during which such Qualified Swap Agreement is in effect. (Section 512 as amended) The Authority also adopted an Interest Rate Swap Policy to require the Authority, its management and staff to adhere to sound financial and risk management practices when assessing the feasibility of Qualified Swap transactions.

SUMMARY OF THE FINANCING AGREEMENT

The following is a brief summary of certain provisions of the Financing Agreement. This summary does not purport to be complete and is subject in all respects to the provisions of and is qualified in its entirety by reference to the Financing Agreement.

Financing Projects. The Authority agrees to use its best efforts to finance all or a part of the Costs of the Projects described in Appendix A to the Financing Agreement. Appendix A may, from time to time, upon approval by resolution of the City, the Authority and the Board, be amended to add a Project, to delete or change a Project listed thereon or change the scope or cost of a Project listed thereon, without the consent of the Trustee or the Bondholders. In consideration of the Authority's issuance of the Bonds, among other things, the Board pledges, gives, grants a security interest in, conveys and transfers to the Authority all of its right, title and interest in the Revenues, including, without limitation, all of its rights to collect and receive said Revenues subject only to provisions of the Financing Agreement and the Resolution permitting the application of said Revenues to the purposes therein set forth. The Board and the City incur no indebtedness under the terms of the Financing Agreement, the Acquisition Agreement, the Operation Agreement, the Resolution or any other documents executed in connection therewith. (Sections 2.1, 2.2 and 2.4)

Transfer of Funds. The Authority shall deposit the proceeds of each Series of Bonds with the Trustee for disbursement in accordance with the provisions of the Resolution and the Supplemental Resolution authorizing such Series. The Authority shall authorize payment of Costs incurred with respect to Projects in the manner set forth in the Resolution once evidence thereof is provided to the Authority in a certificate signed by an Authorized Representative of the Board. (Sections 3.1. and 3.2)

Local Water Fund. The Board shall deposit all Revenues, as promptly as practicable after receipt, into the General Account of the Local Water Fund at the Bank. There shall also be deposited in the General Account in the Local Water Fund all amounts received by the Board from the Trustee pursuant to the Resolution. (Section 4.1)

Establishment of Certain Accounts and Application of Revenues in the Local Water Fund. The Board shall establish the following special accounts or subfunds within the Local Water Fund, each of which shall be held by the Board at the Bank in one or more Bank Accounts as the Board may determine: the Board Expense Account, the Operation Account, the Operation and Maintenance Reserve Account, the Ongoing Project Account and the General Account. The Board shall hold such accounts as trust funds and the amounts on deposit shall be applied solely for the purposes provided in the Financing Agreement and the Operation Agreement.

Beginning on the first day of each Fiscal Year and on each day thereafter, the Board is required to apply the Revenues in the General Account of the Local Water Fund in the following order of priority: First, beginning with the first day of each calendar month, to the Trustee for deposit in the Revenue Fund until the amount on deposit in the Revenue Fund, together with the amount on deposit in the Debt Service Fund, equals the Minimum Monthly Balance for each Series of Bonds in such month and the Trustee shall have received the amounts, if any, required by the Resolution to be deposited in the Authority Expense Fund, the Debt Service Reserve Fund and the Subordinate Indebtedness Fund for such month; second, beginning with the first day of each calendar month, to the Board Expense Account, 1/12 of the Board Expenses for the then current Fiscal Year as shown in the Annual Budget, or with the concurrence of the Rate Consultant, an alternative payment schedule that equitably reflects both the timing of the Board's incurrence of Board Expenses and the timing of Board revenues and fund balances; third, beginning with the first day of each calendar month, to the Operation Account, for credit against the amount due from the Board to the City for Operating

Expenses for the then current Fiscal Year, 1/12 of the amount certified to the Board pursuant to the Operation Agreement, unless the City provides the Board with an alternate payment schedule concurred in by the Rate Consultant that equitably reflects both the timing of the City's incurrence of Operating Expenses and the timing of Board revenues and fund balances; fourth, from the balance, if any, in the General Account after making the deposits described above, to the Operation and Maintenance Reserve Account, all such Revenues until the total of the amounts so paid equals the total amount budgeted for deposit therein in such Fiscal Year in the Annual Budget; fifth, from the balance, if any, in the General Account after making the deposits described above, to the Ongoing Project Account until the amount on deposit therein equals the total amount budgeted for deposit therein in such Fiscal Year in the Annual Budget; and sixth, the balance, if any, in the General Account after making the deposits described above, to the Operation and Maintenance Reserve Account. (Section 4.2)

Minimum Monthly Balance. On the first day of each month, the Minimum Monthly Balance shall be calculated by the Authority for each Series of Outstanding Bonds for such month and shall be an amount equal to the sum of the aggregate amounts of Debt Service that have accrued with respect to all Series of Bonds, calculating the Debt Service that has accrued with respect to each Series of Bonds as an amount equal to the sum of (1) the interest on the Bonds of such Series that has accrued and is unpaid and that will have accrued by the end of the then current calendar month, reduced by the amount, if any, then on deposit in the Capitalized Interest Account in the Debt Service Fund, (2) that portion of the next due Principal Installment for the Bonds of such Series that would have accrued (as deemed to accrue in the manner interest accrues) by the end of the then current calendar month, and (3) any amount payable into a Variable Rate Bond Sinking Fund established pursuant to the Resolution. (Sections 4.2 and 4.3)

Deposits to the Operation and Maintenance Reserve Account. There shall be deposited in the Operation and Maintenance Reserve Account in each Fiscal Year from the sources described below the amount required, if any, so that the amounts on deposit therein at least equal the amount of the deposit to the Operation and Maintenance Reserve Account set forth in the Annual Budget for such Fiscal Year.

Deposits to the Operation and Maintenance Reserve Account may be made from the Local Water Fund as provided in the Financing Agreement, including any accrued surplus on deposit in the Operations Account or the Board Expense Account at the end of any Fiscal Year, or from any other moneys lawfully available therefor.

Application of Moneys in the Operation and Maintenance Reserve Account. The amounts on deposit in the Operation and Maintenance Reserve Account may be used to pay the cost of extraordinary repairs to and replacements of the System, and, if there are insufficient funds in the Operation Account to pay the City the requisite amounts for Operating Expenses, the Board shall withdraw from the Operation and Maintenance Reserve Account and pay to the City, on demand, an amount equal to the amount required to be so paid, or the entire balance in the Operation and Maintenance Reserve Account if less than sufficient.

After any payments and transfers described above are made, the amounts on deposit in the Operation and Maintenance Reserve Account may also be applied or transferred, as the case may be, by the Board in the following order of priority:

(1) on any date that there are insufficient funds in the Board Expense Account to pay Board Expenses then due and owing, to the Board Expense Account the amount of such deficiency;

(2) to pay, when due, (a) the amounts requested by the City to pay Costs incurred by the City for the Construction of Projects approved by the Board, but only if on such date there are insufficient funds in the Operation Account to pay such amounts so requested, and/or (b) Board Expenses incurred pursuant to the Operation Agreement; and

(3) to pay, when due, the principal of and interest on bonds, notes or other obligations of the Authority (other than Bonds, Bond Anticipation Notes and Subordinated Indebtedness), together with all other amounts necessary to make the required deposits, if any, to the reserve and other funds and accounts established for such bonds, notes or other obligations pursuant to the resolution, trust Indenture or other instrument under which such bonds, notes or other obligations were issued.

If the accrued surplus on deposit in the Operation and Maintenance Reserve Account at the end of any Fiscal Year exceeds an amount equal to 10% of the total Annual Budget for such Fiscal Year, then during the next Fiscal Year the Board shall expend the portion of such accrued surplus that exceeds 10% of such Annual Budget in the manner described in (2) and (3) above, unless the Board and the City otherwise agree to the contrary. The portion of such accrued surplus that exceeds ten percent (10%) of the total Annual Budget of the Board for such Fiscal Year shall be deemed to be Revenues collected for the next Fiscal Year of such Annual Budget. (Section 4.5)

Application of Moneys in the Operation Account. The amounts on deposit in the Operation Account shall be paid to the City for Operating Expenses in accordance with the Operation Agreement. (Section 4.6)

The amounts on deposit in the Operation Account may also be paid to the City for Costs incurred by the City for the Construction of Projects approved by the Board as provided in the Operation Agreement. (Section 4.6)

Application of Moneys in the Board Expense Account. The amounts on deposit in the Board Expense Account shall be applied by the Board solely for the purposes of paying Board Expenses. (Section 4.7)

Application of Moneys in the Ongoing Project Account. The amounts on deposit in the Ongoing Project Account shall be applied (i) to ongoing Projects undertaken by the City in accordance with the Operation Agreement, or (ii) for improvements to, including equipment for, the System undertaken by the Board in accordance with the Operating Agreement.

The amounts on deposit in the Ongoing Project Account may also be applied to pay the principal of and interest on bonds, notes or other obligations of the Authority (other than Bonds Bond Anticipation Notes and Subordinate Indebtedness), together will all other amounts necessary to make the required deposits, if any, to the reserve and other funds and accounts established for such bonds, notes or other obligations pursuant to the resolution, trust Indenture or other instrument under which such bonds, notes or other obligations were issued. (Section 4.8)

Application of Revenues After Default. The Board has covenanted that if an “Event of Default” (as defined in the Resolution) shall occur and be continuing, the Board shall upon demand of the Trustee pay or cause to be paid to the Trustee all moneys and securities then held by the Board in the Local Water Fund, and thereafter the Revenues as promptly as practicable after receipt, for application in accordance with the provisions of the Resolution dealing with the application of moneys during the continuation of an “Event of Default” thereunder. (Section 4.9)

Amounts Remaining. Any amounts received or held by the Authority or the Trustee pursuant to the Resolution, any similar document or the Financing Agreement after all Bonds and other evidences of indebtedness have been paid in full or are no longer Outstanding and after payment of all other obligations and expenses of the Authority, or provision for payment thereof has been made, shall be paid to the Board. (Section 4.10)

Rate Covenant. The Board has covenanted and agreed to establish, fix and revise fees, rates, rents or other charges for the use of or services furnished by the System, which, together with any other available funds, are adequate to provide for: (1) the timely payment of the Principal Installments of and interest on all Bonds and the principal of and interest on any other indebtedness of the Authority payable from Revenues, (2) the proper operation and maintenance of the System, (3) all other payments required for the System not otherwise provided for, and (4) all other payments required pursuant to the Financing Agreement and the Operation Agreement. Without intending to limit the generality of the foregoing, the Board has also covenanted to establish and collect rates, fees and charges sufficient in each Fiscal Year so that Revenues collected in such Fiscal Year will be at least equal to the sum of (a) 115% of estimated Aggregate Debt Service and Projected Debt Service payable in such Fiscal Year, (b) 100% of the Operating Expenses and Authority Expenses payable in such Fiscal Year, and (c) 100% of the amount necessary to pay the other Required Deposits for such Fiscal Year. A failure to generate such Revenues does not constitute an "Event of Default" if the Board takes timely action to correct any such deficit. The Board shall review, at least annually, such rates, fees and charges to determine whether such rates, fees and charges are, or will be, sufficient to meet the requirements described above and shall promptly take action to cure or avoid any deficiency. Except to the extent required by law or by the Financing Agreement or the Operation Agreement, the Board will not furnish or supply any product, use or service of the System free of charge or at a nominal charge; provided, however, there shall be no charges for any use of the System by the City in pursuance of its governmental functions or for services rendered to the City in connection with such use of the System. (Section 6.1)

Consulting Engineer and Rate Consultant. The Authority shall annually employ a Consulting Engineer and the Board shall annually employ a Rate Consultant whose duties, respectively, shall be to make any certificates and perform any other acts required or permitted of the Consulting Engineer and the Rate Consultant under the Financing Agreement, the Operating Agreement and the Resolution. The same person or firm may not perform the duties and functions of the Consulting Engineer and the Rate Consultant.

In every other Fiscal Year the Consulting Engineer, and in every Fiscal Year the Rate Consultant, shall make an examination of, and shall report to the Authority, the Board, the Mayor, the Common Council and the Trustee on, the properties and operations of the System. Such reports shall set forth among other findings: the Consulting Engineer's advice and recommendation as to the proper operation, maintenance and repair of the System during the ensuing two Fiscal Years and improvements that should be made during the ensuing five Fiscal Years, and an estimate of the amounts of money necessary for such purposes, the Rate Consultant's recommendation as to any necessary or advisable revisions of rates, fees and charges and such other advice and recommendation as it may deem desirable, and the Consulting Engineer's findings as to whether the System has been maintained in good repair and sound operating condition, and its findings as to whether the System has been maintained in good repair and sound operating condition, and its estimate of the amount, if any, required to be expended to place such properties in such condition, and the details of such expenditures and the approximate time required therefor. The City and the Board covenant that if any such report shall set forth that the properties of the System have not been maintained in good repair and sound operating condition, they will promptly restore the properties to good repair and sound operating condition with all expedition practicable. (Section 6.2)

Covenant to Operation of Main System. The City and the Board have covenanted as follows:

(1) the Board shall at all times, within the funding provided by the Board to the City, operate the System properly and in a sound and economical manner and maintain, preserve and keep the same preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and from time to time make, or cause to be made, all necessary and proper repairs, so that at all times the operation of the System may be properly and advantageously conducted, regardless of any failure on the part of the Board to make the payments to the City required by the Operation Agreement; provided, however, that nothing contained in the Financing Agreement shall require the Board or the City to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if there shall be filed with the Board, the Authority and the Trustee (a) a certificate of an Authorized Representative of the Board and the City stating that in the opinion of the City abandonment of operation of such part of the System will not adversely affect the operation of the System or the amount of Revenues derived therefrom and is not prejudicial to the interests of the Board, the Authority or the Bondholders and (b) a Certificate of the Consulting Engineer concurring with such statement;

(2) the Board and the City shall enforce the rules and regulations governing the operation, use and services of the System established from time to time by the Board or the City;

(3) the Board and the City shall observe and perform all of the terms and conditions contained in the Act, and comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body having competent jurisdiction of the City, the Board or the System; provided, however, that the failure of the City or the Board to comply with this covenant for any period shall not constitute a default on its part so long as the City or the Board, as the case may be, (a) is taking reasonable and timely steps to permit compliance and (b) the City or the Board, as the case may be, shall have delivered to the Authority and to the Board or the City, as the case may be, a Certificate of the Consulting Engineer, which (i) sets forth in reasonable detail the facts and circumstances attendant to such noncompliance, (ii) sets forth the steps being taken by the City or the Board, as the case may be, to permit compliance, (iii) sets forth the estimated date on which the City or the Board, as the case may be, will be in compliance and (iv) states that in the opinion of the Consulting Engineer such noncompliance during the period described will not adversely affect the operation of the System or the amount of Revenues to be derived therefrom;

(4) the Board and the City shall not create or suffer to be created any lien or charge upon the System or any part thereof, except for Permitted Encumbrances;

(5) The City shall, within the limits of funding provided, and in accordance with the Operation Agreement and the Financing Agreement, undertake and complete such improvements to the System, including but not limited to capital improvements, replacements, renewals, alterations, increases, enlargements, extensions and additions, whether structural, non-structural, ordinary or extraordinary, and such planning, studies, designs and surveys as are necessary or appropriate and the Construction of such Projects as the Board, based upon recommendations from the Consultant Engineer, shall determine to be necessary and appropriate to preserve and keep the System in good working and safe order and condition. Any such improvements so undertaken by the City pursuant to funding: (i) if provided by the Board shall be conveyed to the Board, and (ii) if provided by the City or the Authority, may be conveyed to the Board upon such terms as the Board and the City may agree; and

(6) Nothing contained in the Operation Agreement or the Financing Agreement shall be construed as preventing the Board from undertaking, to the extent permitted by law, improvements to

the System (including the acquisition of equipment therefor), on its own initiative from revenues available to the Board pursuant to the Act, or from funds other than the proceeds of obligations issued by the City or the Authority to finance same or from funds otherwise available from the Financing Agreement. In addition, the Board may with the concurrence of the City undertake such improvements on its own initiative, provided that such improvements are financed either out of proceeds of obligations issued by the City to finance same, or from other funds of the City available therefor; and further provided the City considers such improvements to be appropriate and in the public interest. (Section 6.3)

Annual Budget. On March 1 of each year (or on such later date as the Authority, the Board and the City may agree) the Authority shall deliver to the Board a certified copy of the Authority Budget for the ensuing Fiscal Year showing the Authority Expenses and the Debt Service and Projected Debt Service for all Series of Bonds and all Projected Series of Bonds for such Fiscal Year. Within five days after passage of the City's budget, the City shall submit to the Board its certification of the amounts of moneys to be paid to the City by the Board in accordance with Section 6.2(A) of the Operation Agreement. Based upon the information contained in (1) the Authority Budget, (2) the City's certification pursuant to Section 6.2(A)(1) of the Operation Agreement, (3) the certificate of the Consulting Engineer or the Rate Consultant delivered to the Board pursuant to Section 6.2(A)(2) of the Operation Agreement, and (4) the report of the Consulting Engineer described in Section 6.2 of the Financing Agreement (collectively, the "Budget Documents"), the Board in consultation with the City shall prepare the Annual Budget for the ensuing Fiscal Year. In addition to the information contained in the Budget Documents, the Board shall also make provision in the Annual Budget (a) for Board Expenses for the ensuing Fiscal Year, (b) for the amount, if any, required to be deposited in the Operation and Maintenance Reserve Account in accordance with Section 4.4 of the Financing Agreement, and (c) after consultation with the Consulting Engineer, for the amount to be deposited in the Ongoing Project Account. Thereafter, but in no event later than 15 days after the date of passage of the City's budget, the Board shall adopt such Annual Budget. Promptly after adoption of the Annual Budget, and in no event later than June 30 (or such other date as the Authority, the Board and the City may agree) of each year, the Board shall establish the rates, fees and charges for the use of the System for the ensuing Fiscal Year. The Board may from time to time, either before or after commencement of the Fiscal Year to which it relates, amend the Annual Budget, but (except for its own expenses) only in accordance with and after receipt of amended Budget Documents. If, as of the first day of any Fiscal Year an Annual Budget has not been adopted, the Annual Budget for the immediately preceding Fiscal Year shall be the Annual Budget for such Fiscal Year until a new Annual Budget is adopted. The Annual Budget for Fiscal Years 1992 and 1993 adopted by the Board by resolution on or prior to the date of adoption of the Resolution shall be deemed to satisfy all the procedural requirements of Section 6.4 of the Financing Agreement. (Section 6.4)

Tax Exemption. The Authority, the City and the Board have covenanted that, so long as any Bonds shall be Outstanding under the Resolution, each will (1) not take any action, or fail to take any action, which, if taken or not taken, as the case may be, would adversely affect the tax-exempt status of the interest payable on the Bonds then Outstanding, and (2) consent to any amendments to the Financing Agreement, the Operation Agreement and the Resolution required, in the opinion of Bond Counsel, to maintain such tax exemption. Such amendments may be made without the consent of Bondholders. (Section 6.5)

Discontinuance of Service. The Board and the City have covenanted to enforce the rules and regulations providing for discontinuance of, or disconnection from, the supply of water for nonpayment of fees, rates, rents or other charges imposed by the Board, provided that such discontinuance or disconnection shall not be carried out except in the manner and upon the notice as is

required of a waterworks corporation pursuant to Sections 89(b)(3)(a)-(c) and 116 of the Public Service Law of the State. (Section 6.7)

Covenant of City as to Rates and Charges. The City has covenanted that, upon the issuance of the Bonds by the Authority, the City will not thereafter levy user fees, rents and other charges with respect to the System until all Bonds are paid or are otherwise defeased pursuant to the terms of the Resolution; provided, however, that the City may levy ad valorem taxes or assessments to pay the costs and expenses of the System or to pay the principal of and interest on general obligation bonds of the City heretofore or hereafter issued to finance the System or any part thereof. (Section 6.9)

Books and Records. Each of the Authority and the Board shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions relating to their corporate purposes under the Act. The Authority and the Board shall each annually prepare and submit to the Mayor, the Director of the Budget of the City, the Comptroller, Governor of the State, the State Comptroller and the State Legislature a detailed report concerning their activities for the Fiscal Year, as more fully described in the Financing Agreement. (Section 6.11)

Liens. Until the Bonds or other evidences of indebtedness issued by the Authority for its purposes under the Act have been paid in full or provision has been made therefor in accordance with the Resolution or other similar document pursuant to which the same were issued, the Financing Agreement provides that the Board shall not create, and, to the extent it has the power to do so, shall not permit to be created, any lien upon or pledge of the Revenues, except the lien and pledge thereon created by the Act, the Resolution and the Financing Agreement. (Section 6.12)

Security Interests. Except to the extent provided by the Act, neither the Board nor the Authority may grant any Bondholder any security interest in any of the assets or Properties of the Board (other than the Revenues that have been pledged pursuant to the terms of the Financing Agreement and of the Resolution). (Section 6.13)

Agreement of the State. Pursuant to the Act, the State has pledged and agreed that it will not alter or limit the rights vested by the Act in the Authority or the Board to fulfill the terms of any agreement made with or for the benefit of the Bondholders, or in any way impair the rights and remedies of Bondholders, until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged. The Authority, the Board and the City for the purpose of effectuating such pledge of the State certify that the Financing Agreement, the Resolution and the Acquisition Agreement are all intended to be for the benefit of the Bondholders. (Section 7.1)

Events of Default. An “Event of Default” or a “Default” means any one of the following events: (1) failure by the Board to pay the Authority those amounts required under the Financing Agreement; (2) failure of the City or the Board to observe any covenant, term, or condition of the Financing Agreement (other than as described in clause (1) above) and such failure shall have continued for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the City or the Board, or both, by the Authority, unless the Authority shall agree in writing to extend such time prior to its expiration, provided such extension shall not be unreasonably withheld if the City or the Board has instituted and is diligently pursuing corrective action that cannot be completed within the applicable period; (3) the Authority shall file a petition or otherwise seek relief under any Federal or State bankruptcy or similar law; or (4) the respective provisions of the Act pursuant to which the Resolution has been adopted or the bonds have been issued, including, without limitation, those provisions pursuant to which the lien upon the Revenues of the Board has been

created pursuant to the Financing Agreement and the Resolution and those provisions establishing the powers and obligations of the Board and the relationship of the Authority to the Board and the City as contemplated by the Act, shall be materially and adversely limited, altered or impaired by any legislative action or any final judgment or the terms conditions and security provided under the Financing Agreement and the Resolution shall be materially and adversely limited, altered or impaired by any legislative action or any final judgment. (Section 8.1)

Remedies. Whenever any Event of Default shall have occurred and be continuing, and written notice of the Default, if required, shall have been given to the City and the Board by the Authority or by the Trustee and the Default shall not have been cured within any curative period provided therefor, the Authority and the Trustee and the Default shall not have been cured within any curative period provided therefor, the Authority and the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the payments then due and as they thereafter become due, and the Authority and the Trustee, so long as any Bonds are Outstanding, may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the City or the Board under the Financing Agreement. The remedies conferred upon or reserved to the Authority in respect of any Event of Default are not exclusive of other available remedies, but shall be in addition to every other remedy given under the Financing Agreement or existing at law or in equity or by statute. (Sections 8.2 and 8.3)

Termination. The Financing Agreement shall terminate, and the covenants and other obligations contained therein shall be discharged and satisfied, when (1) payment of all indebtedness of the Authority has been made or provided for in accordance with the Resolution or similar document securing such indebtedness and (2) either all payments required thereunder have been made in full, or provision for such payments satisfactory to the Authority has been made, or the City pays or assumes all liabilities, obligations, duties, rights and powers of the Authority under the Financing Agreement. (Section 9.1)

Amendments. The parties to the Financing Agreement may enter into any amendment, change or modification of the Financing Agreement (if in writing, signed by each of the parties and consented to in writing by the Trustee); provided that the parties shall enter into no such change or modification that adversely affects the rights of the holders of any Bonds by modifying certain enumerated provisions of the Financing Agreement without first complying with the applicable provisions of the Resolution. (Section 11.1)

Conflicts. The Financing Agreement provides that its provisions shall not change or in any manner alter the terms of the Resolution, or adversely affect the security, rights or remedies of the Trustee or the Bondholders. In the event any provision of the Financing Agreement conflicts at any time, or in any manner, with the provisions of the Resolution or any Bond, the provisions of the Resolution or Bond shall be controlling and conflicting provisions of the Financing Agreement shall be disregarded. (Section 12.1)

Incorporation. The Acquisition Agreement and the Operation Agreement are attached to and declared to be a part of the Financing Agreement and incorporated into the Financing Agreement in full as though set forth in full therein. (Sections 6.1 and 6.2)

Swap Provision. On September 15, 2005, the Financing Agreement was amended to allow the Authority to enter into various swap transactions.

SUMMARY OF THE OPERATING AGREEMENT

The following is a brief summary of certain provisions of the Operation Agreement. This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Operation Agreement.

Revenues of the Board. All Revenues received by the Board shall belong to the Board, and shall be applied in accordance with the provisions of the Financing Agreement and the Resolution. (Section 2.1)

Substitution of Board for City. Where necessary or desirable and to the extent permitted by law, the City and the Board agree to use their best efforts to substitute the Board for the City with respect to any application or proceedings filed or commenced in relation to the System with the various State and Federal regulatory bodies having jurisdiction over the System. To the extent permitted by law, the City and the Board agree any such application or proceeding shall inure to and be for the benefit of the Board and shall be binding upon the Board to the same extent and in the same manner as if the Board had been a party to such application or proceeding from its inception, and that the Board shall be deemed a party thereto. To the extent permitted by such regulatory bodies, all licenses, approvals, permits or decisions issued or granted pursuant to or as a result of any such application or proceeding shall inure to the benefit of and be binding upon the Board, and the City agrees to assign and transfer same to the Board to the extent permitted by law. (Section 2.2)

Indemnification. The City agrees, subject to certain conditions, to hold the Board harmless from any and all liability, loss or damage from or in connection with any act the Board does or omits to do in the exercise of its powers if taken or omitted in good faith and in pursuance of its corporate powers. (Sections 2.3 and 2.4)

Contractor Indemnification. The Board shall cause all persons, firms, corporations or entities with whom it contracts to perform any of the duties herein assigned to or assumed by the Board for the operations, maintenance, repair and management of the System, to keep, save, defend and hold harmless the Board, the Authority and the City and its officers, employees and agents from any and all liability, loss or damage arising from or in connection with any act done or omitted by such persons, firms, corporations or entities and their employees, officers or agents in connection with the operation, maintenance, repair and management of the System. (Section 2.5)

Board to Operate and Maintain System. The Board shall manage, operate, maintain and repair the System. The City agrees that the Board is entitled to advise and consult with the City in all substantially material decisions affecting the operation and management services provided by the City for the benefit of the System. The Board shall administer, operate and maintain the System in good and safe order and condition, and make all necessary repairs in connection therewith. The terms “maintain” and “repair” shall include all necessary repairs, replacements, renewals, alterations and additions, whether structural, non-structural ordinary or extraordinary, the term “administer” shall include, without limitation, the enforcement of regulations of the Board and the City relating to the use of the System, and “operate” shall include the engagement of independent contractors for the fulfillment of the Board’s duties and obligations with respect to the System.

Failure on the part of the Board to comply with the provisions described above shall constitute an “event of default” under the Financing Agreement, provided: (i) the City shall first deliver a written notice to the Board stating the basis for the deficiency, including written reports of the Authority, the Rate Consultant and the Consultant Engineer concurring with the City’s findings; (ii) the Board shall fail to commence to correct such deficiency within thirty (30) days of receipt of such notice; and (iii)

the costs to the Board and/or the City of correcting such deficiency shall be provided to the Board and the City, as the case may be, out of the Ongoing Project Account or any other Account; provided, however, that such costs shall not be paid out of the General Account unless and until the Minimum Monthly Balance has been satisfied for the month in which such costs are to be paid.

The City shall, within the limits of funding, and in accordance with the Operation Agreement and the Financing Agreement, undertake and complete such improvements to the System, including but not limited to capital improvements, replacements, renewals, alterations, increases, enlargements, extensions and additions, whether structural, non-structural, ordinary or extraordinary, and such planning, studies, designs and surveys as are necessary or appropriate to effect such improvements and the Construction of such Projects as the Board, based upon recommendations from the Consultant Engineer, shall determine to be necessary and appropriate to preserve and keep the System in good working and safe order and condition. Any such improvements so undertaken by the City pursuant to funding: (i) if provided by the Board, shall be conveyed to the Board, and (ii) if provided by the City or the Authority, may be conveyed to the Board upon such terms as the Board and the City may agree.

Nothing contained in this Operation Agreement or in the Financing Agreement shall be construed as preventing the Board from undertaking improvements to the System on its own initiative from revenues available to the Board pursuant to the Act, or from funds other than the proceeds of obligations issued by the City or the Authority to finance same. In addition, the Board may with the concurrence of the City undertake such improvements on its own initiative, provided that such improvements are financed either out of proceeds of obligations issued by the City to finance same, or from other funds of the City available therefor; and further provided the City considers such improvements to be appropriate and in the public interest. (Section 3.1)

The City shall use all reasonable care, within the limits of funding provided by the Board, to prevent the occurrence of waste, damage or injury to the System. No permit, license or similar approval from the City, nor any bond or insurance otherwise required by the City shall be required to operate, maintain, repair or improve the System in furtherance of the public purpose of the Board. The System shall be used, operated and maintained in accordance with all applicable laws, including the applicable rules and regulations of the Board and the City. The Board shall exercise its powers pursuant to applicable law to administer, operate, maintain and regulate the use of the System. The exercise of such powers by the Board shall not, however, diminish the power of the City pursuant to the Act to promulgate such rules and regulations as it may deem necessary from time to time. (Sections 3.2 and 3.3)

Construction and Acquisition by City. The City may incur Costs for the Construction, effectuation and financing of Projects in accordance with a written five year Project capital plan mutually agreed to by the City and the Board, and concurred to by the Authority. Such Projects may be financed from the Construction Fund in accordance with the provisions of the Financing Agreement. Projects may also be financed from the Operation Account or the Operation and Maintenance Reserve Account in the Local Water Fund if such Projects are specified and approved in the Project capital plan agreed upon by the Board and the City and concurred in by the Authority. Projects may also be financed from the Ongoing Project Account in the Local Water Fund. (Section 4.1)

The City will acquire all real and personal property, or any interest therein, necessary or useful for the Construction or effectuation of a Project; provided that all such property or interest acquired by the City through the exercise of the power of eminent domain shall be taken in the name of the City. Upon payment by the Board to the City of the City's costs and expenses incurred in connection therewith, such property or interest therein shall be conveyed by the City to the Board. (Section 4.2)

Billing and Levy of Water Charges. The Board shall render billing, accounting and budgeting services, including but not limited to: (1) notification to users of the System of the water charges levied by the Board, (2) collection of such charges, and (3) maintenance of the books, records and accounts of the billing systems. The Board reserves to itself the power to resolve billing and other disputes regarding the levy of water charges and to delegate all or a portion of such powers to the City. (Sections 5.1 and 5.2)

Levy of Water Charges. In accordance with the Act, the Board hereby authorizes and directs the City to levy the amount of any delinquent water charges against persons and property liable therefor and authorizes the City to exercise all of its powers covering enforcement and collection of such water charges. (Section 5.2)

Late Payments. All late payments of water charges are the property of the Board and shall be collected by the Board or as the Board may delegate to the City through any applicable remedy available under current law. (Section 5.3)

Discontinuance of Billing Services. If the Board, the Authority, the Consulting Engineer and the Rate Consultant determine that the City is not properly performing billing services pursuant to the Operation Agreement, or if the City no longer desires to provide such services, the party making such determination and said party's desire to terminate such services shall give written notice of such fact to the other party at least two years prior to the proposed date of termination of such services. Notwithstanding such termination of billing services by the City, Section 5.2 of the Operation Agreement, relating to delinquent water charges, shall remain in full force and effect, and in such event the Board shall pay to the City the costs of services provided to the Board. (Section 5.4)

Payments of Costs by the Board. As consideration for (1) the performance by the City of its obligations set forth herein, (2) the City's agreement to bill the Board for services to be provided by the City in connection with the capital improvement of the City's direct costs of such services (including but not limited to salary, fringe benefits and retirement system contributions), (3) the assignment to the Board of delinquent water system user accounts receivable attributable to periods prior to the Board's acquisition of the System, (4) the providing by the City to the Board with general overhead and support services and facilities, the use of the City's facilities for meeting and other administrative functions, (5) payments-in-lieu-of-taxes by the Board as permitted by the Act, and (6) the City's agreement to bill the Board for use of the City's employees; the Board agrees, pursuant to the Act, including but not limited to Section 1048-j thereof and otherwise as permitted by law, to make the payments to the City to provide the services described below.

Subject to the lien of the Act, the Operation Agreement and the Financing Agreement and the payment of Operating Expenses incurred in the operation, maintenance and repair of the System, the Board shall make the following payments: (1) the cost of debt service on all of the City's outstanding general obligation bonds (or portions thereof), to the extent that the proceeds of such outstanding bonds were used for water related purposes, and all Operating Expenses incurred by the City in connection with the System (but net of the amount of any governmental operating aid received or receivable within the current Fiscal Year with respect to the System), including but not limited to (a) the cost of third party contracts for administration, maintenance, repair and operation of the System, (b) the cost of materials and supplies for the System, (c) the amount of any judgment or settlement paid by the City arising out of a tort claim (but only if the costs of such claim are not otherwise reimbursed and the City's liability for such claim is related to Construction of a Project or the City's improvements to the System pursuant to the Operation Agreement or the Financing Agreement), and (d) an amount sufficient to reimburse the City for the compensation, or the costs of the services, of the City, whether on a full-time or a part-time basis to the Board, (2) an amount sufficient to reimburse the City for Costs

incurred by the City for the Construction of Projects that are not paid or reimbursed from any other source to the extent such Project is specified and approved by the Board as provided in the Operation Agreement, including, without limitation, the payment of any judgment or settlement arising out of a contract claim related to the construction of any Project, and (3) an annual amount equal to \$4,036,000 increased by five percent (5%) compounded annually for the term of the Financing Agreement; provided that the City may waive all or any part of such increase annually and, in such event, may, at the City's sole discretion, defer and accrue up to 20% of such waived increase (1% of the total amount due the City from the previous year) and, again at the City's sole discretion, require that all or any portion of such accrued moneys be paid to the City in any subsequent Fiscal Year. The Board has agreed to provide free use of the System to the City for its governmental purposes. (Section 6.1)

Method of Payment. The City agrees that the Board may have input in connection with preparation of budget requests for Operating Expenses and Project Costs for the ensuing Fiscal Year. The City shall certify to the Board within five business days after passage of the City's Budget for the ensuing Fiscal Year the amount that the City reasonably anticipates it will expend in connection with payment of (1) debt service on the City's outstanding water-related general obligation bonds, (2) Operating Expenses and (3) costs incurred for the Construction of Projects that are not paid or reimbursed from any other source. The Board shall commence payment of amounts in respect of such Operating Expenses so certified by the City upon receipt of a written request therefor from the City; provided that, prior to such payment to the City, the Board shall have received, in addition to such certification by the City, a certificate of the Consulting Engineer or the Rate Consultant to the effect that such amounts certified by the City are reasonable and appropriate. If the amounts certified by the City are not determined to be reasonable and appropriate, the Board with the concurrence of the Authority may adopt findings as to what amounts are reasonable and appropriate and the City shall promptly amend its budget in accordance therewith. In the event that in any Fiscal Year, the City incorrectly estimates the amounts to be expended in such year, the City shall deliver to the Board a certificate of the Consulting Engineer or the Rate Consultant and a supplemental certificate of the City stating the new estimates. For Fiscal Year 1992, the City's certification described above will be made not later than the date of the Board's acquisition of the System (the "Acquisition Date") and the certification of the Consulting Engineer is not required. In addition, when any action under the Operation Agreement cannot be timely performed during Fiscal Year 1992 because the specified time for action is (i) prior to the Acquisition Date or (ii) so soon after the Acquisition Date that the action could be timely taken only with extreme hardship to the City or the Board, then such action shall be deemed timely taken if taken as soon as practicable after such date. (Sections 6.2 and 7.1)

Disposition of Property. Other than Permitted Encumbrances, the Board agrees that it will not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of any part of the System, or any other property that may be acquired by the Board, or its interest in the Operation Agreement, without the prior written approval of the City.

The City may request the Board to dispose of personal property included in the System. In the case of personal property the value of which is less than \$1 million per unit, the Board will adopt rules and procedures for the expedited disposition thereof. Upon the City's request to dispose of any personal property valued in excess of \$1 million, the Board will give such consent only upon receipt of a certificate from the Consulting Engineer to the effect that such personal property may be disposed of without materially or adversely affecting the Revenue or impairing the ability of the Board to make any payments required by the Operation Agreement or the Financing Agreement or any other agreement to which it may be a party or be bound. The Board may also, with the prior written consent of the City, grant Permitted Encumbrances on the System that, in the reasonable judgment of the Board and the City, do not interfere with the operation and maintenance of the System and the collection of the Revenues. (Section 9.1)

Encumbrances. Other than pursuant to Permitted Encumbrances, the Board may not authorize, extend or renew any contract for the management of the operation and maintenance of the System or any use of, or grant any lien, encumbrance, security interest, license, easement or right-of-way affecting the System without prior written approval of the City. (Section 9.2)

SUMMARY OF THE MANAGEMENT AGREEMENT

The following is a brief description of the Management Agreement. This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to the Management Agreement. The Management Agreement is between the Buffalo Water Board and Veolia Water North America-Northeast, LLC (Veolia), a Delaware limited liability company with offices at 1115 Chestnut Street, Brockton, Massachusetts 02301.

Term of Management Agreement. The Management Agreement is effective for a period of ten (10) years commencing on July 1, 2010 and terminating on June 30, 2020, unless sooner terminated as provided herein. (Section 2.1)

Negotiation of Contracts. Veolia shall assist the Water Board to negotiate agreements to be entered into by the Water Board relating to the operation and maintenance of the System or the Water Board's interest in the System, including representing the interests of the Water Board, and shall recommend to the Water Board the approval of such agreements consistent with Prudent Management Practices. (Section 2.4)

Relationship of Parties. The Water Board and Veolia agree that the relationship is one for professional and technical services by Veolia as an independent contractor as specified in the Management Agreement. Neither the Water Board nor Veolia is an agent, employee or joint venturer of the other or of the City or of the Authority and neither party will represent itself as such. Veolia has limited authority to act as the representative of the Water Board in carrying out its obligations under the Management Agreement. The parties anticipate that day-to-day operating contracts and supply orders will be entered into between Veolia and third parties. Pursuant to the Operation Agreement, the Water Board has agreed to use the services of the graded employees of the City of Buffalo Division of Water to operate, maintain, repair and improve the System and Veolia will perform this agreement using the services of the Union Employees. It is understood and acknowledged that the Union Employees are the employees of the City of Buffalo and are subject to all rights and privileges afforded to public employees as provided by the Laws of the State and City, including but not limited to the New York Civil Service Law. The Management Agreement is conditioned upon such Union Employees being paid by the City pursuant to the salary ordinances and other compensation provisions of the collective bargaining agreements by and between the City and the unions representing the Union Employees. Notwithstanding any other provision, neither the Board nor Veolia shall be deemed the employer, individually or jointly, of the Union Employees. (Section 2.6)

Vehicles and Equipment. Veolia shall manage and be entitled to use the Equipment and Vehicles of the System and shall, at its cost, purchase and/or lease Vehicles for use in the System. Upon expiration of the Agreement, Veolia shall pay the remaining lease contract costs and expenses of such vehicles and deliver free and clear title to the Water Board. In the event of early termination of this Agreement, as of the termination date, Veolia shall transfer or assign its interest in the Vehicles to the Water Board and the Water Board shall assume responsibility for all outstanding lease or purchase payments for any Vehicles as of such termination date.

Veolia shall continue to use the Vehicles provided with the system as of the Commencement Date. Veolia shall negotiate purchases or leases with other persons and shall be subject to approval by the

Water Board Representative. During the term of this Agreement, Veolia shall spend a minimum of \$5,000,000 on Vehicle repair, maintenance and replacement with a target of spending \$500,000 per contract year. If the actual aggregate amount spent by Veolia during the Term on Vehicle acquisition, lease and maintenance, plus any amount credited or paid to the Water Board after Contract Year 5 as provided herein, is less than Five Million dollars (\$5,000,000), Veolia shall pay or credit the difference to the Water Board. In the event of early termination, such amount shall be prorated for purposes of calculating the payment or credit due to the Water Board. (Section 2.7)

Ultimate Authority of the Board. No agreement or negotiation by Veolia shall be binding upon the Water Board without a duly adopted resolution of the Water Board specifically referring to such agreement as being in the best interest of the Water Board. Nothing herein constitutes a waiver or delegation of the Board's statutory duties, powers or obligations with respect to the operation, maintenance, repair and management of the System. (Section 2.8)

Statement of Purpose. The Water Board agrees to engage Veolia in order to obtain Veolia's experience, professional and specialized skills, expertise and services to manage the operation, maintenance, repair and improvement of the System, in furtherance of the Water Board's achievement of its public purposes and the performance of an essential governmental function. Veolia acknowledges that the Water Board and the carrying out of its powers and duties are in all respects for the benefit of the people of the City and the State, for the improvement of their health, welfare and property and that such purposes are public purposes and that the Water Board is and will be performing an essential governmental function in the exercise of the powers conferred upon it by the Act. (Sections 5.1 & 5.2)

Goals and Standard of Review. It is the intention of the Parties to achieve efficiencies in the management of the System, maintain the quality of the water distributed to consumers, stabilize System rates, reduce unaccounted for water, extend the service life of the System and effect water and energy conservation measures. In determining whether either Party has performed this Agreement and undertaken its duties and obligations under this Agreement consistent with such goals, the standard of review shall be whether the Water Board has complied with Industry Standards, and whether Veolia has complied with Prudent Management Practices. (Section 5.3)

System Operation. Veolia shall manage the operation of the Water Plant so that the average water quality meets or exceeds the finished Water Quality requirements, established by all existing Laws as of the Commencement Date relating to the operation of the System. Veolia shall manage the operation, maintenance and repair of the System with the objective of extending its useful life, providing maximum capacities, preventing unnecessary damage to public and private property, minimizing inconveniences by handling interruptions in service and preventing public health hazards. Veolia shall manage the operation, maintenance and repair of the System so as to minimize odors, noise and disruption of neighborhoods as far as practicable. Veolia shall assist the Water Board, the City and the Representative to timely respond to claims, complaints and questions about the operation, maintenance and repair of the System. Veolia will provide 24-hour per day, seven days per week emergency service and will use its best efforts to maintain uninterrupted service to customers of the System. (Section 6.3)

Performance Standards. The operation, maintenance and repair of the System shall be managed in accordance with Prudent Management Practices, the Scope of Services and the Performance Standards. The Scope of Services and Performance Standards shall be reviewed on an ongoing basis and may be adjusted as agreed to by the Parties from time to time. The Scope of Services and Performance Standards applicable to Contract Years 6 through 10 shall be established and agreed to by the Parties on or before the close of Contract Year 5. (Section 6.4)

Water Meters. Veolia acknowledges that meter reading routes and billing cycles must be evaluated and restructured if necessary to improve the efficiency of meter reading, the accuracy of bills and increase revenue collection. Veolia shall evaluate the meter billing cycles and meter reading routes and present its evaluation and recommendations to the Water Board. Meter reading routes, cycles and performance shall be reviewed and continuously improved, in order to promote meter reading efficiency, accuracy, and timely bill release. (Section 6.8)

System Personnel. Veolia shall provide such personnel as are necessary and appropriate to perform its obligations in accordance with the purposes and standards of the agreement. In addition, Veolia shall manage the City's Union Employees employed in the City's Department of Public Works - Division of Water in accordance with such collective bargaining agreements, the Civil Service Laws, and all other applicable Laws. In no event, however, shall the Union Employees be deemed to be employees of Veolia or the Water Board, jointly or individually. All disciplinary or adverse actions with respect to any personnel so managed by Veolia shall be performed: (i) by the City with respect to Union Employees based upon information and recommendations provided by Veolia, (ii) by the Water Board with respect to employees of the Board, if any, and (iii) by Veolia, with respect to non-Union Employees. (Section 6.11)

Comprehensive Maintenance Programs. Veolia will submit a comprehensive maintenance program to the Water Board within one hundred eighty days (180) from the Commencement Date. Such maintenance program shall include all major assets, facilities, Vehicles and Equipment. Veolia shall:

(a) Maintain the developed and established comprehensive preventive, predictive, scheduled and unscheduled maintenance programs for all Equipment, Vehicles, and assets of the System assigned to Veolia. Veolia shall perform scheduled and unscheduled Maintenance and Repairs to all Equipment, Vehicles, and structures of the System in accordance with such established maintenance programs. Veolia shall perform preventive Maintenance on all Equipment and structures of the System at intervals in accordance with manufacturers' recommendations. Veolia shall provide routine maintenance of the buildings and grounds forming part of the System.

(b) Veolia shall maintain the records of its Maintenance and Repairs on its computer maintenance program and provide a report of such information to the Water Board on a monthly basis. Upon termination or expiration of this Agreement, Veolia shall provide the Water Board with copies of all computer maintenance programs and/or transfer the access rights or licenses for the Water Board's future use.

(c) (i) Veolia shall be responsible for the cost of each Maintenance or Repair item which is Ten Thousand Dollars (\$10,000) or less, excluding the Compensation Cost of Union Employees. For the purposes of calculating the cost of each Maintenance or Repair item, no aggregation of multiple item costs will be permitted. Any such Maintenance or Repair items may be implemented by Veolia without further approval or consent of the Water Board. Veolia shall obtain the Water Board's approval for any non-emergency Maintenance or Repair item, the projected cost of which is more than Ten Thousand Dollars (\$10,000), excluding the Compensation Cost of Union Employees, prior to incurring any such expense. If the Water Board approves such recommended Maintenance or Repair item, the Water Board shall pay the total cost of such Maintenance or Repair expense, excluding the Compensation Cost of Union Employees. The Water Board shall be responsible for the payment of the total cost of each emergency Maintenance or Repair item with a cost (excluding Compensation Cost) of more than Ten Thousand Dollars (\$10,000). (Section 6.17).

Services to be Provided by Veolia. Except as otherwise provided in the agreement Veolia shall pay for and provide or obtain all personnel, utilities and supplies that it needs to manage the maintenance, operation and repair of the System in accordance with the Scope of Services and Performance Standards.

(a) This will include all necessary personnel required for the operation of the System to the service level defined in the Scope of Services, Performance Standards, and in accordance with the collective bargaining agreements and employment contracts in force and effect from time to time.

(b) All administrative and management personnel to supplement the Union Employees, for services including management, certain human resources, certain accounting services, purchasing and information systems, billings and collections, laboratory services and fleet management.

(c) All such personnel shall be capable and experienced to perform the tasks assigned or expected to be performed and qualified to meet all applicable certifications or requirements of Law, or in the absence thereof, Prudent Management Practices to manage the operation, maintenance and repair of the System. When necessary or appropriate, Veolia shall also provide, or cause to be provided, such professional engineers, licensed in the State, as may be required, in the judgment of Veolia, to perform the services required by Veolia, or as may be required by applicable Laws.

(d) All materials and supplies, including chemicals, Vehicle accessories and supplies, vehicle licenses, office supplies, building and grounds maintenance supplies, replacement parts, Equipment or Maintenance supplies and spare parts required in the day-to-day management of operations, Maintenance and Repair of the System.

(e) Collection and disposal of sludge and other wastes.

(f) Veolia shall ensure the System provides potable water with sufficient pressure 24 hours per day, 7 days per week and 52 weeks per year.

(g) Veolia shall obtain and pay for costs and expenses for utility services, with the exception of electricity, natural gas, gasoline and diesel fuel, to operate and maintain the System, including but not limited to data communications and telephone services.

(h) Veolia shall maintain, enhance and update the Buffalo Water website (www.buffalowaterauthority.com). Veolia shall assume all costs associated with the hosting and updating of the website.

(i) The parties may modify, add or delete the Scope of Services and other services to be provided by Veolia during the Term of this Agreement in light of New Work, Changes in Law, changed circumstances, new technology, Force Majeure and other reasons not currently contemplated or foreseeable, or that may otherwise be beneficial to the System. (Section 6.9)

Fines. Veolia shall be responsible and liable for penalties or fines, without any dollar limit, which may be imposed by Government having jurisdiction over the System for Water Quality violations and for failure to comply with the terms and conditions of any duly authorized permit, court order, administrative order, law, statute or ordinance resulting from Veolia's negligence or other tortious misconduct. (Section 6.21)

Management and Operations Fee. The Board will pay Veolia a monthly Management and Operations Fee in an amount equal to one-twelfth (1/12) of the annual Management and Operations fee.

As of July 1, 2014 the Annual Management and Operations Fee will be \$5,522,758. The annual Management and Operations Fee for each year (excluding the first year) shall be adjusted, only to the extent of increases, based upon the applicable consumer price index. (Section 6.31)

Customer Collections. Veolia shall manage the billing and collection of accounts receivable of the Water Board at Veolia’s cost and expense (including but not limited to postage and handling), excluding however, collection of accounts receivable by the City through lien enforcement procedures. In addition, Veolia shall manage the billing and collection of the rents and charges of the Buffalo Sewer Authority as agreed to by the Water Board and the Buffalo Sewer Authority, provided that Veolia is authorized to manage the billing and collection of such rents and charges by the Buffalo Sewer Authority. Veolia shall generate and distribute bills and arrange for the deposit of all water charge collections in the Water Board’s Local Water Fund. Veolia acknowledges that the Water Board is seeking to improve revenue collections. Veolia will continuously review the billing and collection process and performance throughout the Term of the Agreement with the objective of improving and maximizing revenue collections. (Section 6.7)

Veolia’s Insurance Requirements.

(a) Veolia shall obtain, pay the entire premium and maintain insurance throughout the Term of this Agreement, with insurers that are authorized to issue policies in the State and are acceptable to the Water Board, covering the following risks and events and in the following amounts:

(i) Commercial General Liability:

Bodily Injury and Property Damage	\$2,000,000 Occurrence
	\$4,000,000 Aggregate
Personal Injury Liability	\$2,000,000

(ii) Commercial Automobile Liability: This insurance shall cover all Vehicles owned or leased by the Water Board, or Veolia and used in connection with the operation and maintenance of the System, including coverage for collision, theft, uninsured and under-insured motorists:

Hired and Non-Owned Liability	\$1,000,000 Per Accident
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(iii) Worker’s Compensation: Statutory for Veolia employees only

(iv) Employer’s Liability (for Veolia employees only):

Bodily Injury By Accident	\$500,000 Each Accident
Bodily Injury By Disease	\$500,000 Policy Limit
Bodily Injury By Disease	\$500,000 Each Employee

(v) Excess Liability:

Personal Injury Liability, and Bodily Injury and Property Damage	\$50,000,000 Aggregate
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(b) Notification of Loss. Veolia will notify the Water Board of all notices of loss or claim against the policies maintained by Veolia pursuant to this Agreement in excess of ten thousand dollars (\$10,000.00) with respect to losses or claims arising in Buffalo and Erie County, and in excess of five hundred thousand dollars (\$500,000.00) with respect to losses or claims arising outside of Buffalo and Erie County. If such claims reduce the aggregate coverage amount available from those limits

described herein, or as subsequently amended by agreement between the Water Board and Veolia, then the Water Board may require that Veolia acquire additional insurance coverage to ensure that the aggregate limits are maintained at the levels described above. The cost of acquiring such additional insurance shall be paid for by the Water Board.

(c) Additional Insured. Veolia will cause the Authority, the Water Board and the City to be named as an additional insured on all policies maintained by Veolia pursuant to this Agreement (except the workers' compensation policy and employer's liability policy covering Veolia's employees. Veolia will provide the Authority, the Water Board and the City with certificate(s), and upon request, a true and certified original copy of each such policy, evidencing compliance with the aforesaid insurance requirements, before the Commencement Date and confirmation of the renewal of such policies within sixty (60) days of their renewal date. Each policy of insurance will contain a provision that the same will not be canceled or not renewed unless the Authority, the Water Board and the City are given thirty (30) days notice of such intended cancellation or non-renewal. Each policy will contain a waiver of subrogation in favor of the Water Board, the Authority and the City, to the extent available. (Section 6.33)

Indemnification and Hold Harmless. Veolia shall indemnify, defend and hold the Authority, the Water Board and the City harmless against any and all liabilities, suits, actions, demands, judgments, losses, expenses, damages, claims and costs, including reasonable attorney's fees and court costs, (whether under any statute or at common law) for injury (including death) to any person or property caused by Veolia's negligence, omission, or other tortious conduct in the operation, maintenance or repair of the System, but not damages, claims or liabilities arising from the gross negligence of the City, the Water Board or the Authority. The foregoing indemnification shall be available only to the extent of Veolia's insurance coverage and insurance limits. (Section 6.34)

Maintenance and Repair Savings. If the actual aggregate of Maintenance and Repair expenditures for which Veolia is responsible is less than \$400,000 in any Contract Year, Veolia will refund or credit the difference to the Board, in its entirety, within sixty (60) days following the end of the Contract Year. (Section 6.36)

Union Employees. Veolia shall manage the Union Employees holding the graded and classified job titles as specified in Exhibit E hereto, as such job titles may change from time to time as contemplated herein to perform the System operations. The employees and job titles may decrease or change over time due to normal attrition, including, but not limited to, resignation, termination and retirement. The job titles may change from time to time, including but not limited to, as a result of agreements reached by such labor-management committee as may be formed by Veolia and representatives of the Union Employees. Alternatively, upon the prior consent of the City, the Water Board (represented by Veolia as provided below) may directly enter into collective bargaining agreements with the unions representing the Union Employees, employ the Union Employees, and provide such Union Employees for management by Veolia. Union Employees are not and shall not be deemed to be employees of the Water Board or Veolia. The parties recognize that nothing in this Agreement shall give either the Water Board or Veolia any right to hire or fire Union Employees, to discipline Union Employees or to enforce any collective bargaining agreement between the City and the unions representing such Union Employees. Notwithstanding the foregoing, nothing herein shall prevent Veolia from offering incentives to Union Employees to induce retirement or performance as allowed by Law. (Section 7.1)

Permits. Veolia shall assist the Water Board in maintaining all existing licenses and permits that have been granted to the Water Board as owner of the System or that are used by the Water Board. Veolia will be responsible for the cost of maintaining such existing licenses and permits. The Water

Board shall be responsible for applying for and obtaining, at the Water Board's expense, such additional licenses and permits as may be required of the Water Board as owner of the System or required by the City for work by the Union Employees contemplated herein. (Section 7.3)

Baseline Influent Flow and Raw Water. The benchmark for the System Average Annual Influent Flow shall be 68.0 MGD. If the average influent flows as measured at the Water Plant increases to greater than 71.4 MGD in any Contract Year, then the Management and Operation Fee shall be adjusted to account for increased costs arising from the increased Average Annual Flow. Veolia shall be entitled to an adjustment for the substantiated direct cost of chemicals, sludge disposal, and overhead, as approved by the Representative. In the event there is a reduction in the Average Annual Flow, Veolia shall retain any resulting savings and there shall be no adjustment to the Management and Operations Fee. In the event that the quality of the raw water supply to the System materially deteriorates in any 12-month period as a result of naturally or non-naturally occurring phenomenon that cannot be reasonably anticipated, Veolia shall present to the Water Board evidence of such deterioration, and shall be paid for its direct additional costs, if any, of maintaining Water Quality resulting from such change in the raw water. (Section 7.6)

Definition of Defaults.

(a) The occurrence of any of the following shall be an **"Event of Default"** under this Agreement:

(i) If the Water Board fails to pay any fee, charge or other monetary payment, other than the Management and Operations Fee, after approval by the Representative and the City Comptroller (such approval not to be unreasonably withheld), to Veolia within thirty (30) days of the date upon which such payment is due and payable, as provided in this Agreement;

(ii) Incurring or causing the City or the Water Board to incur three or more Material fines from the Government in any Contract Year, provided that such fines are not being contested by Veolia in good faith; and

(iii) The breach of any other representation, warranty or covenant by any Party to this Agreement, except in the event of Force Majeure, where such breach is not cured by the defaulting Party within thirty (30) days of the delivery of notice specifying the breach (or ten (10) days in the case of a default in the payment of a Material amount of money owed by Veolia to the Water Board), or where such breach is not capable of cure within such thirty (30) day period, where the defaulting Party has in good faith commenced to remedy such default within such thirty (30) day period.

(b) The occurrence of any of the following shall be a **"Material Event of Default"** under this Agreement:

(i) If any Party hereto shall make any assignment for the general benefit of creditors or shall cease or threaten to cease carrying on business or shall take or threaten to take any action to liquidate its assets or shall stop making payments to its creditors in the ordinary course of business or shall institute or have instituted against it any proceeding under any Law or otherwise relating to insolvency or bankruptcy (and such proceeding is not dismissed within sixty (60) days after commencement thereof) or if any custodian, receiver, manager or other Person with like powers shall be appointed (and such Person is not discharged within sixty (60) days after appointment thereof) to take charge of all or part of any Party hereto undertaking, business, property or assets or if any Party hereto shall commit any other act of insolvency or bankruptcy;

(ii) If the Parent Company shall make any assignment for the general benefit of creditors or shall cease or threaten to cease carrying on business or shall take or threaten to take any action to liquidate its assets or shall stop making payments to its creditors in the ordinary course of business or shall institute or have instituted against it any proceeding under any statute or otherwise relating to insolvency or bankruptcy (and such proceeding is not dismissed within sixty (60) days after commencement thereof) or if any custodian, receiver, manager or other person with like powers shall be appointed (and such person is not discharged within sixty (60) days after appointment thereof) to take charge of all or any part of the Parent Company's business property or assets or if the Parent Company shall commit any other act of insolvency or bankruptcy;

(iii) If the Parent Company fails to comply with its obligations under the Guaranty Agreement referred to in Section 10.1 of this Agreement, including the financial covenants referred to therein.

(iv) If the Water Board fails to pay the payment due for the Management and Operation Fee as provided in Section 6.31 of this Agreement within thirty (30) business days after the date upon which such payment is due as provided in this Agreement;

(v) Veolia's performance of this Agreement, in such a manner as to create a situation that creates a serious threat to the health and public welfare of the Water Board or City and its users and residents, or which would seriously jeopardize the operational capacity or integrity of the System, except in the event of Force Majeure, and where Veolia has not remedied such situation within ten (10) business days of written notice thereof or, where such situation cannot be remedied within ten (10) business days, where Veolia has not commenced remediation of such situation within ten (10) business days of written notice thereof and diligently proceeded to complete such remediation;

(vi) If an order shall be made or a resolution passed for the winding up or liquidation of either Veolia or the Parent Company or if either purports to take any corporate proceedings to enable it to take proceedings for its dissolution or liquidation, other than a winding up of Veolia into the Parent Company as a result of a reorganization;

(vii) Intentionally operating without appropriate permits, insurance or bonds as required in this Agreement for more than fifteen (15) business days, except where the Water Board fails to obtain or maintain permits for which the Water Board is responsible or where the Water Board otherwise fails to comply with this Agreement in a manner which compromises Veolia's ability to obtain or maintain permits, insurance or bonds;

(viii) Material damage or destruction of Equipment, Vehicles or structures at the System caused by, or arising from the gross negligence or willful misconduct of Veolia or its officers or employees, which damage or destruction is not fully remedied, or the value of which has not been reimbursed by Veolia, within thirty (30) days of the date on which the damage or destruction was incurred;

(ix) Causing any permit necessary for the operation of the System (and excluding any permit the loss of which does not prevent the continued operation of the System) to be canceled or not issued due to the gross negligence of Veolia, which permit is not obtained within any applicable grace periods allowed by the Government entity which issues such permit, and in the absence of such grace periods, is not obtained within fifteen (15) business days after the cancellation or expiration of such necessary permit; or

(x) The failure of Veolia to give prior written notice to the Water Board of a change in control of Veolia such that the Parent Company no longer controls Veolia directly or indirectly or any realization by any creditor upon a pledge of its interests, provided that Veolia shall have not less than thirty (30) days to present the circumstances of any such change in control to the Water Board and satisfy the Water Board, in its discretion, that such change in control will not impair Veolia's performance of this Agreement.

(c) In the event of any Material Event of Default, the non-defaulting Party shall be entitled to terminate this Agreement upon not less than thirty (30) days prior written notice of such termination of this Agreement, such notice to specify the circumstances of the asserted Material Event of Default, which notice will be effective upon receipt.

(d) The foregoing remedy with respect to any Material Event of Default shall be in addition to such remedies, damages, defenses, set-offs and claims as may be available at law or equity to either Party, except as otherwise provided in this Agreement. In addition to any other monetary remedies provided herein, the non-defaulting Party may pursue a cause of action against the defaulting Party for any and all actual damages suffered by the non-defaulting Party as a result of any Material Event of Default by the defaulting Party. Each Party shall be required to pay for their respective costs in pursuing such action, including attorney's and expert fees. (Section 8.1)

Notice and Cure. If any Party determines that the other Party has committed an Event of Default, the non-defaulting Party shall give notice in writing to the defaulting Party of the Event of Default. The Parties shall, no later than thirty (30) days following delivery of such notice of an Event of Default, meet and agree upon the remedial steps to be taken by the defaulting Party. If the Parties are unable to agree upon the remedial steps to be taken within a further thirty (30) days or to agree upon whether there has been the occurrence of an Event of Default, then the matter may be referred to dispute resolution as provided in Section 9.6 of this Agreement. If the defaulting Party does not implement the remedial action agreed upon or fixed by dispute resolution within the time frame agreed upon or fixed in accordance with such dispute resolution, then the non-defaulting Party may exercise any of the remedies set forth in Section 8.3 of this Agreement. The Parties agree that any time period allowed for a defaulting Party to cure an Event of Default will be extended if the Event of Default cannot be cured without applicable Government approval by the time required to obtain such approval, provided that an application for such approval has been filed with the appropriate Government. (Section 8.2)

Remedies. If a defaulting Party does not cure an Event of Default as described above, then:

(i) if Veolia and/or the Parent Company is the Party in default, the Water Board may terminate this Agreement on not less than sixty (60) days written notice of the effective date of termination;

(ii) if the Water Board is the Party in default, Veolia and the Parent Company may terminate this Agreement on not less than sixty (60) days written notice of the effective date of termination. (Section 8.3)

Termination by Board. In the event (i) the Authority's Bond Counsel determines in writing or any court, department of State or Federal Government (not including the Water Board, the City or the Authority), administrative agency, commission or board, including but not limited to the Internal Revenue Service or Public Employment Relations Board, determines in writing that this Agreement or any material part hereof is in violation of any Law or renders any of the Bonds sold by the Authority as non-tax exempt, or (ii) the Water Board determines that it is impractical for the Water Board to fulfill

its obligations under this Agreement in the event of a Casualty Event which substantially renders or will render the System inoperable for a period in excess of six (6) months, or (iii) all or substantially all of the System shall be taken or condemned by a public entity for a public use or purpose, the Water Board reserves the right to terminate this Agreement upon thirty (30) days written notice to Veolia.

(b) Pursuant to Public Authorities Law Section 2875 the Parties hereto agree that the Water Board may terminate this Agreement upon the refusal by any officer, director or partner of Veolia, when called before a grand jury, head of a State department, temporary State commission or other State agency, the organized crime task force in the department of law, head of a City department, or other City agency, which is empowered to compel the attendance of witnesses and examine them under oath, to testify in an investigation concerning any transaction or contract had with the State, any political subdivision thereof, a public authority or with any public department, agency or official of the State or of any political subdivision thereof or of a public authority, to sign a waiver of immunity against subsequent criminal prosecution or to answer any relevant question concerning such transaction or contract. (Section 8.4)

Termination for Convenience. Either the Water Board or Veolia may terminate the Agreement for convenience upon one hundred eighty (180) days written notice to the other Party. (Section 8.5)

Adjustments Required to Maintain Tax-Exempt Status of Bonds. Each of the Water Board, for itself and on behalf of the City, and Veolia hereby acknowledges that (i) the Authority has authorized and issued and has outstanding Water System Revenue Bonds, (collectively, the “**Bonds**”), (ii) the interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “**Code**”), (iii) the terms of the Financing Agreement provide for “private business use” of facilities financed with tax-exempt bonds as that phrase is referred to in applicable provisions of the Code, and in particular Rev. Proc. 97-13 issued by the U.S. Internal Revenue Service, and U.S Treasury Regulations §1.141-3 *et seq.*, and (iv) pursuant to the provisions of the Financing Agreement, Veolia’s providing management services to the Water Board and the City hereunder may result in such private business use of the System which would cause the interest on the Bonds to not be tax-exempt for federal income tax purposes. Accordingly, the Water Board, for itself and on behalf of the City, covenants to limit and otherwise restrict compensation of any kind for any purpose paid directly or indirectly to Veolia in any year the Financing Agreement is in force to an amount of which no less than 80% is the amount for each year set forth in Exhibit D hereto, as adjusted in accordance with this Agreement pursuant to Section 6.31, including any such amounts for each year of any renewal term of this Agreement. Veolia acknowledges and agrees to the foregoing restriction. Each of the Water Board, for itself and on behalf of the City, and Veolia agrees to establish appropriate procedures to periodically calculate and monitor compensation paid to Veolia to perform the covenants contained in this Section 9.17. For purposes of this Section 9.17, the term “compensation” shall not include (i) any payment made by Veolia to any Person not a Party hereto, in the performance of Veolia’s obligations under this Agreement, including those adjustments as set out in Section 6.31, the payment of which is charged to the Water Board or the City for reimbursement *pro tanto* or (ii) any payments to Union Employees required to be made by the Water Board under Sections 6.5, 6.9(i) of this Agreement or under any other provision of this Agreement. In the event any increase to the Management and Operations Fee is hereby restricted, this Agreement shall be deemed to be terminated by the Water Board pursuant to Section 8.4. (Section 9.17)

Guarantee by Parent Company. As an inducement to the Water Board to enter into this Agreement with Veolia, the Parent Company has agreed, among other things, to guaranty the performance by Veolia of its obligations pursuant to this Agreement, to provide certain audited financial statements of the Parent Company, and to maintain a minimum net worth of One Hundred

Million Dollars (\$100,000,000). In the event of a dispute, the Water Board shall first proceed against Veolia, while sending notice to the Parent Company, describing the nature of such dispute, the remedies sought and the time period within which such remedies are sought. In the event that the Water Board is unable to obtain satisfaction from Veolia within a reasonable period of time (not to exceed ninety (90) days) and after all applicable cure periods have expired, the Water Board may then seek any and all remedies allowed herein or by law against the Parent Company. The Parent Company has agreed that a change in the members of Veolia will not relieve the Parent Company of its guaranty hereunder. The form of the Guaranty Agreement of the Parent Company, which shall incorporate, by reference, the Dispute Resolution provisions of section 9.6 and include an acknowledgement and consent by the Parent Company to submit to the jurisdiction and venue of the New York Supreme Court, County of Erie and/or the United States District Court for the Western District of New York. (Section 10.1)

APPENDIX F

FORM OF BOND COUNSEL OPINION REGARDING SERIES 2015-A BONDS

June 3, 2015

Buffalo Municipal Water Finance Authority
502 City Hall
Buffalo, New York 14202

Samuel A. Ramirez & Co., Inc.
as Representative of the Underwriters

Ladies and Gentlemen:

We have examined a record of proceedings relating to the sale and issuance of \$46,655,000 Water System Revenue Refunding Bonds, Series 2015-A (the "Series 2015-A Bonds") of the Buffalo Municipal Water Finance Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation organized and existing under the laws of the State of New York.

The Series 2015-A Bonds are authorized to be issued under and pursuant to the Buffalo Municipal Water Finance Authority Act, Title 2-B of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (the "Act"), the Water System General Revenue Bond Resolution adopted by the Authority on November 20, 1992 and a Twenty-Seventh Supplemental Resolution adopted by the Authority on May 20, 2015 (collectively referred to herein as the "Resolution"), and other proceedings duly had and taken in accordance therewith. Upon the terms and conditions therein prescribed, the Resolution permits the Authority to authorize and issue additional bonds secured thereunder.

The Series 2015-A Bonds are dated June 3, 2015, and are numbered from one consecutively upwards, with the letter "AR" prefixed to the number. The Series 2015-A Bonds will mature on the dates and in the principal amounts (unless redeemed prior to maturity) and will bear interest at the rates set forth in the Resolution. Interest on the Series 2015-A Bonds is payable semi-annually on January 1 and July 1 in each year, commencing January 1, 2013.

At the option of the Authority, the Series 2015-A Bonds maturing on or after July 1, 2026 will be subject to redemption prior to maturity at the option of the Authority on July 1, 2025 and thereafter on any date, as a whole or in part, as specified by the Authority, in such order of maturity as may be determined by the Authority, (selected by lot within a maturity), at par plus accrued interest to the date of redemption.

Notice of redemption shall be given by mailing such notice to the registered holders of the Series 2015-A Bonds to be redeemed at their respective addresses as shown upon the registered books of the Paying Agent at least 30 days prior to the date set for any such redemption. If notice of redemption shall have been given as aforesaid, the Series 2015-A Bonds so called for redemption shall become due and payable at the applicable redemption price on the redemption date designated in such notice, and interest on such Series 2015-A Bonds shall cease to accrue from and after such redemption date.

The Series 2015-A Bonds shall not constitute a debt of the State of New York, the City of Buffalo, or the Buffalo Water Board, and neither the State of New York, the City of Buffalo, the Buffalo Water Board, nor any subdivision thereof, shall be liable thereon.

The Series 2015-A Bonds are issued only as registered bonds, without interest coupons, in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company, an automated depository for securities and clearing house for securities transactions. Purchases of ownership interest in the Series 2015-A Bonds will be made in book entry form, in denominations of \$5,000 each or any integral multiple thereof.

In rendering the opinion in paragraph 5 hereafter, we have relied upon and assumed (1) the material accuracy of the representations, statements of intention and reasonable expectation and certifications of fact contained in the Arbitrage and Use of Proceeds Certificate with respect to matters affecting the tax status of interest on the Series 2015-A Bonds and (2) compliance by the Authority with procedures and certifications set forth in the Arbitrage and Use of Proceeds Certificate as to such tax matters.

We are also of the opinion that:

1. The Authority validly exists as a public benefit corporation of the State of New York, with good, right and lawful authority, among other things, to adopt the Resolution and issue the Series 2015-A Bonds and to perform its obligations under the terms and conditions of the Series 2015-A Bonds and the Resolution.

2. The Resolution has been duly adopted by the Authority, is in full force and effect, and is valid and binding upon the Authority.

3. The Series 2015-A Bonds have been duly authorized and issued by the Authority in accordance with law and in accordance with the Resolution, and are valid and binding obligations of the Authority. The Series 2015-A Bonds are enforceable in accordance with their terms and the terms of the Resolution and are entitled to the benefits of the Act and the Resolution. All conditions precedent to the delivery of the Series 2015-A Bonds have been fulfilled.

4. The Resolution creates the valid pledge it purports to create of (a) all Revenues (as such term is defined in the Resolution), except for certain moneys or securities on deposit or required to be deposited in the Rebate Fund established pursuant to the Resolution, (b) all moneys or securities (except amounts in the Rebate Fund and the Unexpended City Proceeds Account within the Construction Fund) on deposit in the Funds and Accounts established pursuant to the Resolution (as each such capitalized term is defined in the Resolution), and (c) all other moneys and securities to be received, held or set aside by the Authority or by any Fiduciary pursuant to the Resolution; subject only to the provisions of the Resolution, the Act and the Financing Agreement dated as of September 24, 1992, as amended, by and among the Authority, the City of Buffalo and the Buffalo Water Board permitting the application thereof for or to the purposes and on the terms and conditions therein set forth.

5. The interest on the Series 2015-A Bonds is excludable, under existing statutes, regulations and court decisions, from the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code; and under existing statutes, interest on the Series 2015-A Bonds is not treated as a preference item in calculating alternative minimum tax with respect to individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such

corporations. Additionally, under existing statutes, interest on the Series 2015-A Bonds is exempt from personal income taxes of New York State and its political subdivisions, including the City of New York.

6. The Bonds are exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof, and none of the Bond Proceedings or other documents relating to the issuance of the Bonds need be qualified as an indenture under the Trust Indenture Act of 1939, as amended.

7. The Contract of Purchase has been duly authorized, executed and delivered by the Authority and assuming the due authorization, execution and delivery thereof by the other parties thereto, is a valid and binding obligation of the Authority, enforceable in accordance with its terms, except that enforceability of rights and remedies may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights and the unavailability of equitable remedies.

8. The Continuing Disclosure Agreement has been duly authorized, executed and delivered by the Authority and constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms, except that enforceability of rights and remedies may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights and the unavailability of equitable remedies.

9. In addition to the foregoing, we have reviewed the statements as to legal matters in the Official Statement under the captions "INTRODUCTORY STATEMENT", "THE SERIES 2015-A BONDS", "AUTHORIZATION FOR THE SERIES 2015-A BONDS", "SECURITY FOR THE SERIES 2015-A BONDS", "THE AUTHORITY — Purpose and Powers", "THE BOARD — Purpose and Powers", "LEGALITY FOR INVESTMENT AND DEPOSIT", "TAX MATTERS", "APPROVAL OF LEGAL PROCEEDINGS" and, "Appendix E — GLOSSARY AND SUMMARY OF CERTAIN DOCUMENTS", and based upon such review, we are of the opinion that such statements accurately summarize the provisions of the Bonds, the Resolutions, the provisions of law pertaining thereto and the legal matters stated therein with respect to the Authority, the Board and the use of the proceeds of the Bonds. Furthermore, we wish to advise you that in the course of such review, nothing has come to our attention which would lead us to believe that any such statements set forth under said captions contain any untrue statement of a material fact or omit to state any material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading.

This opinion is solely for the information of, and assistance to, the addressees hereof and is not to be used, circulated, quoted or otherwise referred to in connection with the offering of the Bonds except that reference may be made to this letter in any list of closing documents pertaining to the sale of the Bonds. This letter refers only to the Bonds as delivered to the above Underwriters by the Authority, and no view is expressed as to any offering by Underwriters or others of derivative instruments with investment characteristics not identical to those of the Bonds.

The opinions set forth in paragraphs 1 through 5 above are qualified only to the extent that the enforceability of the Series 2015-A Bonds and the Resolution may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or other laws or judicial decisions or principles of equity relating to or affecting the enforcement of creditors' rights or contractual obligations generally.

We have examined the executed first numbered Series 2015-A Bond, and, in our opinion, the form of said bond and its execution is regular and proper.

This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

You should be further aware that:

- (i) the above discussion with respect to United States federal tax matters in this opinion of Bond Counsel was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (ii) such discussion was not written, and the opinion of Bond Counsel is not being provided, to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and
- (iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

Very truly yours,

UNDERBERG AND KESSLER LLP

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of June 3, 2015, by and between the Buffalo Municipal Water Finance Authority (the “Authority”), the Buffalo Water Board (the “Water Board”) and U.S. Bank National Association, as Trustee (the “Trustee”) in connection with the issuance of the Authority’s \$46,655,000 aggregate principal amount of Water System Revenue Refunding Bonds Series 2015-A. The Bonds are being issued pursuant to a Water System General Revenue Bond Resolution, adopted November 20, 1992, as amended and supplemented by a First Supplemental Water System Revenue Bond Resolution adopted December 11, 1992, by a Second Supplemental Water System Revenue Bond Resolution adopted July 7, 1995, by a Third Supplemental Water System Revenue Bond Resolution adopted June 19, 1996, by a Fourth Supplemental Resolution adopted February 27, 1998, by a Fifth Supplemental Resolution adopted February 27, 1998, by a Sixth Supplemental Resolution adopted March 29, 1999, by a Seventh Supplemental Resolution adopted December 9, 1999, by an Eighth Supplemental Resolution adopted June 7, 2000, by a Tenth Supplemental Resolution adopted April 3, 2002 and amended July 12, 2002 (superseding in its entirety the Ninth Supplemental Resolution), by an Eleventh Supplemental Resolution, adopted October 24, 2002, by a Twelfth Supplemental Resolution, adopted January 22, 2003, by a Thirteenth Supplemental Resolution, adopted April 11, 2003, by a Fourteenth Supplemental Resolution, adopted February 11, 2005, by a Fifteenth Supplemental Resolution, adopted July 21, 2005, by a Sixteenth Supplemental Resolution adopted September 15, 2005, by a Seventeenth Supplemental Resolution adopted September 15, 2005, by an Eighteenth Supplemental Resolution adopted September 15, 2005, by its Nineteenth Supplemental Resolution adopted January 27, 2006, by its Twentieth Supplemental Resolution adopted June 20, 2006, by its Twenty-First Supplemental Resolution adopted April 27, 2007, by its Twenty-Second Supplemental Water System Revenue Bond Resolution adopted on April 2, 2008, by its Twenty-Third Supplemental Water System Revenue Bond Resolution adopted on April 15, 2008, by its Twenty-Fourth Supplemental Water System Revenue Bond Resolution adopted on May 13, 2008, by its Twenty-Fifth Supplemental Water System Revenue Bond Resolution adopted on May 13, 2008, its Twenty-Sixth Supplemental Resolution adopted June 24, 2010, its Twenty-Seventh Supplemental Resolution adopted April 18, 2012, and its Twenty-Eighth Supplemental Resolution adopted May 20, 2015 (as amended and supplemented the “Resolution”). The proceeds of the Bonds are being used to finance (i) the costs of Projects pursuant to a Financing Agreement dated as of September 24, 1992, as amended, among the Authority, the Water Board and the City of Buffalo, New York; (ii) to refund the outstanding principal amount of the Authority’s Water System Revenue Refunding Bonds, Series 2008-A (the “Refunded Bonds”), (iii) to pay certain other expenses, including debt service reserve requirements and costs of issuance of the Series 2015-A Bonds. Capitalized terms used in this Agreement, which are not otherwise defined in the Resolution, shall have the respective meanings specified in Article IV hereof. Pursuant to the Resolution, the parties agree as follows:

ARTICLE I. The Undertaking

Section 1.1. Purpose: No Issuer Responsibility or Liability. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Authority shall provide Annual Financial Information with respect to each fiscal year of the Authority, commencing with fiscal year ended June 30, 2015, by no later than 210 Business Days after the end of the respective fiscal year, to the Trustee. The Water Board shall provide to the Authority all financial and operating information

determined by the Authority to be necessary for such purpose. The Trustee shall provide notice in writing to the Authority that such Annual Financial Information is required to be provided by such date, at least 60 Business Days but not more than 90 Business Days in advance of such date. The Trustee shall provide such Annual Financial Information to (i) EMMA as the sole repository for the central filing of electronic disclosure pursuant to Rule 15c2-12 and (ii) the applicable State Information Depository (the "SID"), in each case within 5 Business Days after receipt by the Trustee.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such reports shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Authority's compliance with any of its covenants hereunder and under the Resolution (as to which the Trustee is entitled to rely exclusively on a certificate of an authorized officer of the Authority as provided under the Resolution).

(b) The Trustee shall provide, in a timely manner, notice of any failure of the Authority, the Water Board or the Trustee to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) EMMA and (ii) the SID.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2 hereof because not available, the Authority and the Water Board shall provide Audited Financial Statements, when and if available, to the Trustee. The Trustee shall provide any such Audited Financial Statements to (i) EMMA and (ii) the SID, in each case within one Business Day after receipt by the Trustee.

Section 1.4. Reporting of Listed Events. (a) The Authority shall provide, in a timely manner (not in excess of ten business days after the occurrence of any Listed Events), notice of such Listed Event to the Trustee. The Trustee shall provide notice of each such Listed Event to (i) EMMA and (ii) the SID, in each case within one Business Day after receipt by the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Authority whenever, in the course of performing its duties as Trustee under the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Authority or the Water Board to provide notice of a Listed Event hereunder; provided, however, that the failure of the Trustee so to advise the Authority shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

(d) Certain of the six Listed Events subject to a materiality standard may not be applicable. Whenever the Authority or the Water Board obtains knowledge of the occurrence of such a Listed Event, the Authority shall as soon as possible determine if such event would constitute material information for Bondholders of the Bonds.

(e) The Authority shall provide or shall cause the Trustee to provide in a timely manner to EMMA and the SID, written notice of a failure of any officer or other person authorized by the Authority to comply with Sections 1.2, 1.3 and/or 1.4 hereof.

Section 1.5. Additional Disclosure Obligations. The Authority acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Authority

and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Authority under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Listed Event hereunder, in addition to that which is required by this Agreement. If the Authority chooses to include any information in any Annual Financial Information or notice of a Listed Event in addition to that which is specifically required by this Agreement, the Authority shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Listed Event hereunder.

Section 1.7. Previous Non-Compliance. The Official Statement describes in detail the Authority and the Board's prior non-compliance with their respective prior continuing disclosure undertakings in written contracts and agreements specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II. Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Authority provides Annual Financial Information by specific reference to documents (i) either (1) provided to EMMA and the SID or (2) filed with the SEC, or (ii) if such document is a "final official statement" as defined in paragraph f(3) of the Rule, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Listed Event Notices. Each notice of a Listed Event hereunder shall be captioned "Notice of Listed Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Trustee's sole determination, subject to technical and economic feasibility, the Trustee shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Authority's information and notices.

Section 2.5. Fiscal Year. (a) The Authority's current fiscal year is July 1, 2014 - June 30, 2015, and the Authority shall promptly notify the Trustee in writing of each change in its fiscal year. The Trustee shall provide such notice to (i) EMMA and (ii) the SID, in each case within 5 Business Days after receipt by the Trustee.

(b) As provided in Section 1.2(a), Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III. Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date. Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Authority's, Water Board's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Authority delivers to the Trustee an opinion of Counsel, addressed to the Authority, the Water Board and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Trustee delivers copies of such opinion to (i) EMMA and (ii) the SID. The Trustee shall so deliver such opinion promptly after receipt by the Trustee.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Authority shall have delivered to the Trustee an opinion of Counsel, addressed to the Authority, the Water Board and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Authority shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Authority or the Water Board (such as bond counsel or the Trustee) and acceptable to the Authority, addressed to the Authority, the Water Board and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Bonds pursuant to Section 903 of the Resolution as in effect on the date of this Agreement, and (5) the Trustee shall have delivered copies of such opinion(s) and amendment to (i) EMMA and (ii) the SID. The Trustee shall so deliver such opinion(s) and amendment promptly after receipt by the Trustee.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Authority shall have delivered to the Trustee an opinion of Counsel, addressed to the Authority, the Water Board and the Trustee, to the effect that performance by the Authority, the Water Board and the Trustee of this Agreement as so amended will not result in a violation of the Rule, and (3) the Trustee shall have delivered copies of such opinion and amendment to (i) EMMA and (ii) the SID. The Trustee shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

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

(d) If an amendment is made pursuant to Section 3.2 (a) hereof to the accounting principles to be followed by the Authority or the Water Board in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new

accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit: Third-Party Beneficiaries: Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the Authority and the Water Board to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's or Water Board's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

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

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV. Definitions

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

(a) "Annual Financial Information" means, collectively, (i) updated versions of the following financial information and operating data contained in the Official Statement, for each fiscal year of the Authority, as follows:

(i) The annual audited financial statements of the Authority and the Water Board for the preceding Fiscal Year, which may be combined in a single report. The statements are required to be prepared in accordance with generally accepted accounting principles applicable to such entities, except as may otherwise be required by State law.

(ii) A summary of any water rate changes imposed for the preceding Fiscal Year and a summary of water billings and collections for the preceding Fiscal Year.

(iii) A copy or summary of any revised Capital Improvement Plan for the System.

(iv) A statement of the aggregate principal amount and aggregate debt service requirements with respect to any Additional Bonds issued during the preceding Fiscal Year (other than the Bonds).

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

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

(b) “Audited Financial Statements” means the annual financial statements, if any, of the Authority and the Water Board, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP except as may otherwise be required by State law; provided, however, that pursuant to Section 3.2(a) hereof, the Authority and the Water Board may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles, or other description thereof.

(c) “Counsel” means Underberg & Kessler LLP, or other nationally recognized bond counsel or counsel expert in federal securities laws.

(d) “EMMA means the Electronic Municipal Market Access system maintained by the MSRB.

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

(f) “Listed Events” means any of the following significant events with respect to the Bonds, whether relating to the Authority or otherwise:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service (“IRS”) of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or events affecting the tax status of the Bonds;
- (vii) modifications to rights of bondholders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar proceeding of the Authority or the Water Board¹;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Authority or the Water Board or the sale of all or substantially all of the assets of the Authority or the Water Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee, or the change of name of a trustee, if material; and
- (xv) Failure of the Authority to comply with the requirements of Sections 1.2 and 1.3 of this Agreement.

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

(h) “Official Statement” means the Official Statement dated May 21, 2015 of the Authority relating to the Bonds.

¹ For the purposes of the event identified in clause (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

(j) "SEC" means the United States Securities and Exchange Commission.

(k) "SID" means, at any time, a then-existing, state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

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

(m) "Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

ARTICLE V.
Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Trustee. Article XI of the Resolution is hereby made applicable to this Agreement as if this Agreement were, solely for this purpose, contained in the Resolution. The Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the Authority agrees to indemnify and save the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Resolution. The obligations of the Authority under this Section shall survive resignation or removal of the Trustee and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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

BUFFALO MUNICIPAL WATER
FINANCE AUTHORITY

By: _____

BUFFALO WATER BOARD

By: _____

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____

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