

PRELIMINARY OFFICIAL STATEMENT DATED JUNE ____, 2018

NEW ISSUE – Book–Entry Only

RATINGS: Standard & Poor’s: _____

Fitch: _____

(See “Ratings” herein)

In the opinion of Phillips Lytle LLP, Bond Counsel to the Authority, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants described herein, and the accuracy of certain representations by the Authority, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is also of the opinion that such interest is not treated as a specific preference item for purposes of calculating the federal alternative minimum tax imposed under the Code with respect to individuals and corporations, although it is included in the adjusted current earnings when calculating corporate alternative minimum tax. Bond Counsel is further of the opinion that interest on the 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 and the City of Yonkers). See “TAX MATTERS” herein.

**ERIE COUNTY WATER AUTHORITY
(NEW YORK)**

\$ _____*

**WATER REVENUE BONDS, SERIES 2018
(THE “SERIES 2018 BONDS”)**

Dated: Date of Delivery

Due: December 1, as shown on inside cover page

The Series 2018 Bonds are being issued under the Resolution and the Series 2018 Resolution (each as defined herein) to (i) finance the cost of development, acquisition, and construction of certain improvements and additions to the Water System (hereinafter defined), and (ii) pay the costs of issuance of the Series 2018 Bonds. See “THE SERIES 2018 BONDS – Purpose of the Series 2018 Bonds” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Series 2018 Bonds will be issued in registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2018 Bonds. Individual purchases will be made in book-entry-only form in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Series 2018 Bonds.

The Series 2018 Bonds will mature on the dates and in the amounts, will bear interest at the rates and will have the yields or public offering prices shown on the inside cover of this Official Statement. The Series 2018 Bonds will be secured by a lien on Available Revenues (as defined herein) that is subordinate to and inferior to the cost of operation and maintenance of the Water Works System (as defined herein) and on a parity with the pledge of, and lien on, the Available Revenues for the Authority’s Existing Bonds (as defined herein).

Interest on the Series 2018 Bonds will be payable on the dates shown on the inside cover of this Official Statement calculated on the basis of a 30-day month and a 360-day year. The Series 2018 Bonds are subject to redemption prior to maturity in the manner and at the times set forth herein.

Principal and interest on the Series 2018 Bonds will be paid by the Authority’s Trustee and Paying Agent, Manufacturers and Traders Trust Company, Buffalo, New York (the “Paying Agent”), to The Depository Trust Company, which will in turn remit such principal and interest to its Participants for subsequent distribution to the Beneficial Owners of the Series 2018 Bonds, as described herein.

The Series 2018 Bonds, together with any Bonds heretofore and hereafter issued, are obligations of the Authority payable solely from the Available Revenues of the Authority’s Water Works System, all as set forth in the Resolution and Series 2018 Resolution.

The Series 2018 Bonds are subject to redemption prior to maturity as described herein.

The Series 2018 Bonds are not a debt of the State of New York, or of the County of Erie, New York or any other political subdivision of the State of New York. Neither the State of New York nor the County of Erie, New York nor any other political subdivision of the State of New York is liable for the payment of the Series 2018 Bonds, nor are the Series 2018 Bonds payable out of any funds other than those of the Authority pledged under the Resolution. The Authority has no taxing power.

The Series 2018 Bonds are offered subject to the final approving opinion of Phillips Lytle LLP, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Harter Secrest & Emery LLP, Rochester, New York. Certain legal matters will be passed upon for the Authority by its in-house counsel, Margaret A. Murphy, Esq., Buffalo, New York. Capital Markets Advisors, LLC serves as an independent financial advisor to the Authority. It is expected that delivery of the Series 2018 Bonds to beneficial owners will be made through the facilities of the Depository Trust Company, New York, New York on or about July ____, 2018.

Jefferies

June ____, 2018

* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$ _____ *

**ERIE COUNTY WATER AUTHORITY
(NEW YORK)**

Water Revenue Bonds, Series 2018

Dated: Date of Delivery

Principal Due: December 1, as shown below

Interest Due: December 1, 2018 and semi-annually thereafter on June 1 and December 1 in each year until maturity or prior redemption.

Maturities, Amounts, Rates and Yields or Prices and CUSIP Numbers

<u>Maturity</u> <u>December 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>	<u>CUSIP †</u>	<u>Maturity</u> <u>December 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>	<u>CUSIP †</u>
	\$ _____	_____ %	_____ %			\$ _____	_____ %	_____ %	
								*	
								*	
								*	
								*	
								*	

\$ _____ .000% Series 2018 Term Bonds due December 1, 20__; Yield _____ % CUSIP† _____

* Preliminary, subject to change

**THE BOARD OF COMMISSIONERS
OF THE ERIE COUNTY WATER AUTHORITY**

JEROME D. SCHAD, ESQ., CHAIRMAN

MARK S. CARNEY, ESQ., VICE-CHAIRMAN

[VACANT, COMMISSIONER]

OFFICERS

[VACANT, EXECUTIVE DIRECTOR]

ROBERT J. LICHTENTHAL, JR., DEPUTY DIRECTOR

RUSSELL J. STOLL, P.E., EXECUTIVE ENGINEER

TERRENCE D. MCCrackEN, SECRETARY

CERTIFIED PUBLIC ACCOUNTANTS

DRESCHER & MALECKI LLP

BOND COUNSEL

PHILLIPS LYTTLE LLP

FINANCIAL ADVISOR

CAPITAL MARKETS ADVISORS, LLC

The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guaranty the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2018 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2018 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The management of the Authority has prepared the prospective financial information set forth herein to present certain projections of future financial information. The prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Authority's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Authority. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and 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 assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by the management of the Authority as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information. Accordingly, there can be no assurance that the prospective results are indicative of the future performance of the Authority or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

The Authority does not intend to update or otherwise revise the prospective financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, the Authority does not intend to update or revise the prospective financial information to reflect changes in general economic or industry conditions.

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 Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority and the Underwriter disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Other information, including financial information, concerning the Authority is available on the Authority's website, www.ecwa.org. Any information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

No person has been authorized by the Authority to give any information or to make any representations not contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2018 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 this 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 since the date hereof.

The Trustee has no responsibility for the form and content of this Official Statement and has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom.

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OFFICIAL STATEMENT
Relating to
\$ _____*
ERIE COUNTY WATER AUTHORITY
(NEW YORK)

Water Revenue Bonds, Series 2018

INTRODUCTION

Purpose of the Official Statement

This Official Statement (the “Official Statement”), which includes the cover page and the inside cover page, has been prepared by the Erie County Water Authority (the “Authority”), a public body corporate and politic of the State of New York, in connection with the proposed issuance, sale and delivery by the Authority of its \$ _____ Water Revenue Bonds, Series 2018 (the “Series 2018 Bonds”). This Official Statement has been executed on behalf of the Authority by the Chairman of the Board of Commissioners of the Authority.

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State of New York (the “State”), and acts and proceedings of the Authority contained herein do not purport to be complete, and are qualified in their entirety by reference to the official compilations thereof, and all references to the Series 2018 Bonds and the proceedings of the Authority relating thereto are qualified in their entirety by reference to the definitive form of the Series 2018 Bonds and such proceedings.

The following is a brief description of certain information concerning the Series 2018 Bonds and the Authority. A more complete description of such information and additional information that may affect decisions to invest in the Series 2018 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain capitalized terms used in the Official Statement which are not otherwise defined are defined in Appendix B.

Purpose of Issue

The Series 2018 Bonds are being issued to (i) finance the cost of development, acquisition, and construction of certain improvements and additions to the Water System (hereinafter defined) and (ii) pay the costs of issuance of the Series 2018 Bonds. See “THE SERIES 2018 BONDS – Purpose of the Series 2018 Bonds” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2018 Bonds will be issued pursuant to the Fourth General Water Revenue Bond Resolution, adopted by the Authority on July 9, 1992, as amended and supplemented (the “General Resolution” or the “Resolution”), including but not limited to, by the Supplemental Resolution dated August 30, 2016 and a resolution supplemental thereto entitled “Series 2018 Supplemental Resolution Authorizing the Issuance of Water Revenue Bonds, Series 2018” adopted by the Authority on June 14, 2018 (the “Series 2018 Resolution” and together with the General Resolution, the “Resolutions”) and the Erie County Water Authority Act, Article 5, Title 3, Public Authorities Law, Sections 1050 through 1073, inclusive, and all laws amendatory or supplemental thereto (the “Act”). The Authority has Outstanding \$42,968,384 aggregate principal amount of Bonds heretofore issued pursuant to the Fourth General Water Revenue Bonds Resolution (the “Fourth Resolution”) consisting of the Authority’s Fourth Resolution Water Revenue Bonds, Series 1998D, Fourth Resolution Water Revenue Bonds, Series 2003F, Fourth Resolution Water Revenue Bonds, Series 2008, and Fourth Resolution Water Revenue Bonds, Series 2016 (collectively, the “Existing Bonds”). The Series 2018 Bonds will be secured by a lien on Available Revenues (as defined herein) and be subordinate to and inferior to the cost of operation and maintenance of the Water Works System (as

* Preliminary, subject to change

defined herein) and, so long as the Existing Bonds are outstanding, be on a parity with the pledge of, and lien on, the Available Revenues for the Existing Bonds.

For more information with respect to the authorization of the issuance of the Series 2018 Bonds, including a description of other outstanding bond indebtedness of the Authority, see “THE SERIES 2018 BONDS – Authorization of Issuance.”

Security for the Series 2018 Bonds

The Series 2018 Bonds are payable solely from and secured by the funds pledged therefor under the Resolution. The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) all Available Revenues, and (iii) all funds and accounts established by the Resolution including the investments, if any, thereof. “Available Revenues” means all Revenues. “Revenues” include all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership and operation of the Water Works System.

For more information with respect to the security for the Bonds, including the Series 2018 Bonds, see “SECURITY FOR THE SERIES 2018 BONDS.”

The Authority

The Authority is a body corporate and politic constituting a public benefit corporation of the State of New York and is empowered, among other things, to acquire, by purchase or condemnation, water supply and distribution systems and related properties, situated within the County of Erie, New York (“Erie County”) and sources of supply or water supply systems situated outside Erie County. See “THE AUTHORITY.”

The Water Works System

The Authority operates and manages the various components of the Water Works System on (i) a direct service basis where the Authority owns the assets and is responsible for their operation, maintenance, improvement and replacement; or (ii) a leased managed service basis where the Authority leases the assets from a municipality and is responsible for the operation and maintenance of the assets while the municipality is responsible for the improvement and replacement of assets; or (iii) on a bulk sale basis where the Authority contracts with the municipal customer to provide water while the municipality owns the assets and is responsible for their operation, maintenance, improvements and replacement, as well as billings and customer collections.

The Authority’s water supply comes from Lake Erie and the Niagara River. Annually, the Authority treats and distributes approximately 25 billion gallons of high-quality water for residential, commercial, and industrial use in 36 municipalities as well as the Seneca Nation of Indians. The municipalities are located in Erie County and parts of Chautauqua, Cattaraugus, western Wyoming, and western Genesee Counties. The municipalities do not include the City of Buffalo or the Town of Tonawanda (including the Village of Kenmore), per the provision in Section 1052 of the Authority’s enabling legislation. Before water is delivered, the Authority treats it to remove harmful contaminants. Two treatment plants handle that process: the Sturgeon Point Water Treatment Plant in the Town of Evans, New York and the Van de Water Treatment Plant on the upper Niagara River in the Town of Tonawanda, New York. These two water treatment plants, together with 38 pump stations (23 owned by the Authority), 37 water tanks (19 owned by the Authority), 4 process tanks owned by the Authority, 3,628 miles of distribution piping (2,453 miles owned by the Authority) and 18,969 fire hydrants (9,811 owned by the Authority) serve approximately 550,000 persons in Western New York.

The Authority’s rates and charges are independently set by the Authority and are not subject to review, regulation or approval by any federal, state or local governmental agency or body.

For more information with respect to the Water Works System, see “THE WATER WORKS SYSTEM.”

THE SERIES 2018 BONDS

Purpose of the Series 2018 Bonds

The Series 2018 Bonds are being issued to (i) finance the cost of development, acquisition, and construction of certain improvements and additions to the Water System (hereinafter defined), and (ii) pay the costs of issuance of the Series 2018 Bonds. See “THE SERIES 2018 BONDS – Purpose of the Series 2018 Bonds” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Authorization of Issuance

The Series 2018 Bonds will be issued pursuant to the Resolution and the Act. On the date of issuance and delivery of the Series 2018 Bonds, there will be Outstanding under the Fourth Resolution approximately \$2,295,000 aggregate principal amount of the Series 1998D Bonds, \$5,768,384 aggregate principal amount of the Series 2003F Bonds, \$5,610,000 aggregate principal amount of the Series 2008 Bonds, and \$29,295,000 aggregate principal amount of the Series 2016 Bonds (collectively, the “Existing Bonds”). In addition to the Series 2018 Bonds, the Resolution authorizes the issuance of other Series of Bonds for such other purposes as are authorized to be issued under the Resolution. The Bonds permitted to be issued under the Resolution include Capital Appreciation Bonds, Compound Interest Bonds, Variable Rate Bonds and Put Bonds. Unless provided otherwise, all Bonds issued under the Resolution are secured equally and ratably on a parity basis with each other.

Description

The Series 2018 Bonds will be dated as of the date of delivery. The Series 2018 Bonds will mature, subject to prior redemption, on the dates and in the principal amounts and will bear interest at the rates shown on the inside cover page hereof calculated on the basis of a 30–day month and a 360–day year.

Interest on the Series 2018 Bonds will be payable on December 1, 2018, and semi–annually thereafter on June 1st and December 1st in each year until maturity or until earlier redemption, if any.

The Series 2018 Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2018 Bonds. Individual purchases of ownership interests in the Series 2018 Bonds will be made in book–entry–only form in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interests in the Series 2018 Bonds. (See “THE SERIES 2018 BONDS – Book–Entry Only System.”)

Principal and interest will be paid by Manufacturers and Traders Trust Company, Buffalo, New York (the “Paying Agent”) to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Series 2018 Bonds. (See “THE SERIES 2018 BONDS – Book–Entry Only System”).

Manufacturers and Traders Trust Company is the Trustee and Paying Agent for the Bonds.

Nature of the Obligations

Each Series 2018 Bond, when duly issued and paid for, will constitute a contract between the Authority and the owner thereof.

The Series 2018 Bonds are obligations of the Authority payable solely from the Available Revenues of the Authority’s Water Works System, all as set forth in the Resolution and the Series 2018 Resolution. See “SECURITY FOR THE SERIES 2018 BONDS.”

Book–Entry Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2018 Bonds. The Series 2018 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. A single fully–

registered Bond certificate for each maturity of each series of the Series 2018 Bonds, each in the aggregate principal amount of such maturity, will be issued and deposited with DTC.

DTC, the world's largest 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 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2018 Bond ("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 2018 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 the Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 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 the Series 2018 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 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 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.

Payments on the Series 2018 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 the Paying Agent, 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, Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Series 2018 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent. 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 Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures, DTC would mail an Omnibus Proxy to the Authority 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 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

The Authority may decide to discontinue use of the system of book–entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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 takes no responsibility for the accuracy thereof.

THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT OR TIMELINESS OF PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE SERIES 2018 BONDS; OR (III) ANY NOTICE OR TIMELINESS OF NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE SERIES 2018 BONDS.

Optional Redemption

The Series 2018 Bonds maturing on or after December 1, 2027 will be subject to redemption prior to maturity at the option of the Authority on December 1, 2026 and thereafter on any date, as a whole or in part, at par plus accrued interest to the date of redemption, in such order of maturity as is selected by the Authority and by lot within a maturity, in principal amounts of \$5,000 or integral multiples thereof.

Redemption Upon Change of Control

Upon the occurrence of a Change of Control, to the extent permitted by law, the Series 2018 Bonds are subject to redemption, at the option of the Authority, in whole on any date selected by the Authority at a redemption price equal to 110% of the principal amount thereof plus interest accrued thereon to such redemption date.

Scheduled Mandatory Redemption Without Premium

The Series 2018 Bonds are subject to scheduled mandatory redemption from amounts deposited in the Bond Retirement Subaccount of the Bond Account on December 1 of each of the years set forth below, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the Redemption Date, without premium, in the principal amounts set forth below:

Series 2018 Term Bond
 Maturing December 1, 20____

<u>Year</u>	<u>Principal Amount</u>
_____	\$ _____,000
_____*	_____,000

 *Final maturity

Selection of Bonds to be Redeemed

In the case of the Series 2018 Bonds to be redeemed at the option of the Authority, the Authority will select the maturity of the Series 2018 Bonds to be redeemed. If less than all of the Series 2018 Bonds of a maturity are to be redeemed, the Series 2018 Bonds of such maturity to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider acceptable in its discretion.

Notice of Redemption

Notice of redemption of any Series 2018 Bonds shall be mailed by the Trustee not less than thirty (30) days prior to the redemption date, by registered mail, to the registered owner of such Series 2018 Bond as of the forty-fifth (45th) day (whether or not a business day) next preceding the date fixed for redemption at such registered owner's address as it appears on the books of registry. Notice of redemption of the Series 2018 Bonds may also be given by publication by the Trustee (except as provided below), not less than thirty (30) days prior to the date fixed for the redemption thereof, of one such notice in one issue of The Bond Buyer, a financial journal published in New York, New York, or in lieu of publication in The Bond Buyer, in some other newspaper specializing in financial matters printed in the English language and customarily published on each business day and of general circulation in the City of New York, New York, and of one such notice in a newspaper of general circulation printed in the English language, published in Erie County. Notice of redemption by publication need not be given if notice shall have been mailed as aforesaid to the registered owner of each such Series 2018 Bond; provided that, if notice is given by publication as aforesaid, neither failure to mail such notice to the registered owner of any Series 2018 Bond, nor any defect in any notice so mailed, shall affect the sufficiency of the proceedings for the redemption of any of such Series 2018 Bonds.

Effect of Redemption

The Resolution provides that if notice of redemption of the Series 2018 Bonds to be redeemed has been duly given as described above and if moneys sufficient for the redemption of the Series 2018 Bonds to be redeemed, together with accrued interest thereon to the redemption date, are held by the Trustee or Paying Agent, then the Series 2018 Bonds so called for redemption shall become due and payable on the redemption date designated in such notice and interest on such Series 2018 Bonds shall cease to accrue from and after such redemption date.

SECURITY FOR THE SERIES 2018 BONDS

Pledge of the Resolution

The Bonds are payable solely from and secured by the funds pledged therefor under the Resolution. The Resolution pledges as security for payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) all Available Revenues and (iii) all funds and accounts established by the Resolution including the investments, if any, thereof. "Available Revenues" means all Revenues. "Revenues" include all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership and operation of the Water Works System.

Series 2018 Bonds Subordinate to the Costs of the Water Works System and on a Parity with the Existing Bonds

On the date of issuance and delivery of the Series 2018 Bonds, there will be Outstanding under the Resolution approximately \$2,295,000 aggregate principal amount of the Series 1998D Bonds, \$5,768,384 aggregate principal amount of the Series 2003F Bonds, \$5,610,000 aggregate principal amount of the Series 2008 Bonds, and \$29,295,000 aggregate principal amount of the Series 2016 Bonds (collectively, the "Existing Bonds"). The pledge of the Resolution and the Series 2018 Bonds will be subordinate to and inferior to the cost of operation and maintenance of the Water Works System and, so long as the Existing Bonds are outstanding, be on a parity with the pledge of, and lien on, the Available Revenues for the Existing Bonds.

Notwithstanding anything in the Resolution to the contrary, the Authority may enter into agreements with issuers of Additional Security whereby the obligation of the Authority to reimburse the issuer of an Additional Security for amounts paid by such issuer thereunder is secured by a pledge of, and lien on, Revenues on a parity with the pledge of, and lien on, the

Revenues created by the Resolution. Per its current internal policy that may change from time to time, the Authority will limit its use of variable rate debt to no more than twenty percent (20%) of its total debt.

The Bonds are not a debt of the State of New York or of Erie County or of any other political subdivision of the State of New York. Neither the State of New York nor Erie County nor any other political subdivision of the State of New York is liable for the payment of the Bonds. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Bonds. The Authority has no taxing power.

Reserve Accounts

The Resolution provides that a separate Reserve Account in the Bond Account may be created for each Series of Bonds (including the Series 2018 Bonds) issued under the Resolution. The Reserve Account Requirement for each Series of Bonds that has a Reserve Account shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Bonds. The Resolution permits the Authority from time to time to deposit a letter of credit, line of credit, insurance policy, surety bond or similar obligation or instrument into any Reserve Account in satisfaction of the Reserve Account Requirement for the Series of Bonds for which such Reserve Account was established.

The amounts on deposit in a Reserve Account shall be used and applied solely for the purpose of paying when due the principal of, premium, if any, and interest on the Series of Bonds for which the Reserve Account was created, whether at maturity or upon the redemption or purchase thereof from moneys credited to the Bond Retirement Account, and the amounts on deposit in such Reserve Account shall be so used and applied whenever there are insufficient moneys on deposit in the Interest Account, the Principal Account and Bond Retirement Account for such purposes. No Bonds other than the Series of Bonds for which such Reserve Account has been created shall have any right to be paid from such Reserve Account. Income from the investment or reinvestment of moneys in a Reserve Account shall be deposited in such Reserve Account to the extent of any deficiency therein and otherwise to the Revenue Account.

The Series 2018 Resolution does not establish a Reserve Account for the Series 2018 Bonds.

Rate Covenant

Pursuant to the Resolution, the Authority has covenanted that, so long as any Bonds are Outstanding, the Authority shall at all times maintain rates, fees, rentals, and other charges with respect to the Water Works System as shall be required in order that in each Fiscal Year the Net Revenues shall equal at least 1.10 times the sum of the Debt Service on the Bonds for such Fiscal Year, and, in any event, as shall be required to pay or discharge all other indebtedness, charges and liens whatsoever payable out of the Revenues under the Resolution. For purposes of such covenant, the Resolution provides that Debt Service on any Variable Rate Bonds shall be calculated using the greater of (i) the Certified Interest Rate for such Variable Rate Bonds or (ii) the interest rate which the Authority estimates such Variable Rate Bonds will bear during the Fiscal Year for which such calculation is made. Pursuant to the Resolution, the Authority has also covenanted that, so long as any Bonds are Outstanding, the Authority shall at all times maintain rates, fees, rental, and other charges sufficient to pay, and any contracts entered into by the Authority for the sale or distribution of water shall contain rates, fees, rental, or other charges sufficient to pay, the cost of operation and maintenance of the Water Works System, the principal of and interest on the Bonds as the same severally become due and payable, and to maintain any reserve or other funds required by the terms of the Resolution. The Authority shall not reduce any such rates, fees, rentals, and other charges unless on the effective date of such reduction a Rate Consultant shall have recommended such reduction in writing and a copy of such recommendation shall have been filed with the Trustee.

Additional Bonds

The Resolution permits the Authority to issue additional Series of Bonds under the Resolution by means of a Supplemental Resolution. Any such additional Series of Bonds issued under the Resolution will be equally and ratably secured with the Series 2018 Bonds. The Authority may issue additional Series of Bonds in the future to fund capital improvements in accordance with its Capital Improvement Program. See "FINANCIAL OPERATIONS OF THE WATER WORKS SYSTEM—Projected Funding of Capital Improvement Program."

The Resolution provides that the Authority may not issue an additional Series of Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Water Works System unless, among other conditions precedent, there shall be filed with the Authority and the Trustee at the time of issuance of such Series of Bonds:

(1) a certificate signed by an Authorized Officer of the Authority showing that the Net Revenues for any consecutive twelve-month period out of the twenty-four months immediately preceding the month in which such Series of Bonds are being issued were equal to not less than one hundred ten per cent (110%) of the annual Debt Service on the Bonds (including the Series of Bonds then being issued) and the Existing Bonds for the then current Fiscal Year and each future Fiscal Year; or

(2) a certificate of a Rate Consultant showing that the estimated Net Revenues of the Water Works System together with other moneys lawfully available therefor as estimated by such Rate Consultant (as provided in the Resolution) for the period commencing with the Fiscal Year in which the Series of Bonds then being issued is delivered and ending with the later of (x) the fifth full Fiscal Year after such delivery or (y) the first full Fiscal Year after such delivery in which less than 10% of the interest coming due on Bonds estimated by the Rate Consultant to be Outstanding is to be paid from amounts on deposit in the Construction Interest Account in the Construction Account, shall be at least equal to one and twenty-five hundredths (1.25) times the Debt Service for each Fiscal Year during such period on all outstanding Existing Bonds and Bonds, including the Bonds then being issued.

For purposes of determining Debt Service when preparing the certificates described in the preceding paragraph, the Resolution provides that: (A) the interest rate on a Series of Variable Rate Bonds Outstanding at the time of calculation shall be calculated as the greater of (i) the current interest rate on such Series of Variable Rate Bonds, (ii) the maximum interest rate borne by such Series of Variable Rate Bonds during the preceding twelve month period, or (iii) the Revenue Bond Index at the time of calculation, and (B) the interest rate on a series of Variable Rate Bonds then proposed to be issued shall be calculated as the Revenue Bond Index as of the time of calculation. In addition, the Resolution further provides that in the event that the rates and charges imposed by the Authority on the date of adoption of the Supplemental Resolution providing for the issuance of the Series of Bonds then being issued are different from the rates and charges imposed by the Authority during all or any part of the period selected by the Authority for purposes of the certificate described in clause (1) above, then the Authority may, if such later rates and charges are higher than the rates and charges previously imposed by the Authority, and shall, if such later rates and charges are lower than the rates and charges previously imposed by the Authority, adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the rates and charges imposed by the Authority on the date of adoption of such Supplemental Resolution had been in effect during the portion of such period in which such rates and charges were not in effect. Similarly, if customers are being served by the Authority on the date of adoption of the Supplemental Resolution providing for the issuance of the Series of Bonds then being issued who were not being served for all or any part of the period selected by the Authority for purposes of the certificate described in clause (1) above, then the Authority may adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the additional customers had been served during the portion of the period in which such customers were not served.

The Resolution provides that the Authority may issue any Series of Bonds issued for the purpose of refunding all or any portion of Bonds or Existing Bonds without delivering the certificates described above to the Trustee.

For a more extensive discussion of the terms and provisions of the Resolution, the Series 2018 Resolution, the security for the Series 2018 Bonds, the funds and accounts established by the Resolution and the purposes to which moneys in such funds and accounts may be applied, see "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE SERIES 2018 RESOLUTION" attached hereto.

INDEBTEDNESS OF THE AUTHORITY

Annual Debt Service Schedule

The following schedule sets forth all principal and interest payments on all Outstanding Bonds, including estimated debt service on the Series 2018 Bonds:

Year	Series 2018 Bonds			Outstanding Other Fourth Resolution Bonds	Total Debt Service*
	Principal	Interest	Total		
2018	\$ 0	\$ _____	\$ _____	\$ 11,162,210	\$ _____
2019				5,268,393	
2020				4,056,769	
2021				4,056,952	
2022				4,047,483	
2023				3,419,419	
2024				1,763,713	
2025				1,760,713	
2026				1,760,213	
2027				1,756,963	
2028				1,755,963	
2029				1,751,963	
2030				1,749,963	
2031				1,743,763	
2032				1,740,563	
2033				1,734,038	
2034				1,731,550	
2035				1,729,000	
2036				1,720,100	
				-	
				-	
	\$ 0	\$ _____	\$ _____	\$ 54,709,731	\$ _____

* Numbers may not add to the totals due to rounding.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2018 Bonds and certain other available moneys of the Authority are expected to be applied on the date of issuance and delivery of the Series 2018 Bonds as follows:

Sources of Funds

Par amount of the Series 2018 Bonds	\$
Net Original Issue Premium	_____

Total Sources of Funds \$

Uses of Funds

Deposit to Construction Account	
Costs of Issuance ¹	\$ _____

Total Uses of Funds \$

¹ Includes (i) fees and expenses for Underwriter’s discount, Bond Counsel, Underwriter’s Counsel, Trustee, Trustee’s Counsel, accounting, engineering, rating agencies and bond printing and (ii) additional proceeds.

THE AUTHORITY

Creation and Powers

The Authority, a body corporate and politic constituting a public benefit corporation of the State of New York, was created in 1949 and is empowered, among other things, to acquire by purchase or condemnation, water supply and distribution systems and related properties, situated within Erie County, and sources of supply or water supply systems situated within or without Erie County.

The Act authorizes the Authority to construct, develop, own and operate water supply and distribution systems and related properties and also to purchase water from any municipal corporation, town water district, person, association or corporation. The Act authorizes the Authority to produce, develop, distribute and sell water, water services, facilities and commodities within or without Erie County, provided that, except as otherwise provided in the Act with respect to retail sales of water to the Town of Hanover and the Village of Silver Creek, both of which are located in neighboring Chautauqua County, and the Cattaraugus Indian Reservation which is located in Erie County and Chautauqua County, water may be sold by the Authority at retail to individual consumers only within Erie County. Under the Act, the Authority may not sell water in any area served by a water system owned or operated by a municipality or special improvement district unless requested to do so by the governing board thereof. The Authority pursuant to the Act may acquire, hold, lease, mortgage and dispose of any property for its corporate purposes.

The Act, among other things, authorizes the Authority to: (i) acquire, by purchase or condemnation, in the name of the Authority, and to construct and develop, any water supply system and water distribution system, including parts thereof and appurtenances thereto, situated within Erie County, and sources of supply or water supply systems situated without Erie County, (ii) produce, develop, distribute and sell water, water services, facilities and commodities, and purchase water from any municipal corporation, town water district, person, association or corporation, subject to certain restrictions, (iii) issue negotiable bonds, notes or other obligations and to fund or refund the same, and to provide for the rights of the holders of its obligations, (iv) fix rates and collect charges for the use of the facilities of, or services rendered by, or any commodities furnished by, the Authority so as to provide revenues sufficient at all times to pay when due the principal and interest on the bonds of the Authority together with the maintenance of proper reserves therefor, in addition to paying the expenses of operating and maintaining the properties of the Authority, together with proper reserves for depreciation, maintenance and contingencies and all other obligations and indebtedness of the Authority, and (v) enter into cooperative agreements with

other water authorities and municipalities for the interconnection of facilities, the exchange or interchange of services and commodities or for any lawful purposes necessary or desirable to effect the purposes of the Act. The Public Authorities Law of the State of New York authorizes the Authority, among other things, to enter into contracts to provide for the financing of, and to issue bonds to finance, the acquisition and construction of improvements to any water supply system or water distribution system. The Act provides that neither the New York State Public Service Commission nor any other board or commission of like character shall, unless expressly authorized hereafter, have jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of the rates and charges collected by the Authority.

Members

The Authority consists of three members appointed by the Chairman of the Legislature of Erie County, subject to confirmation by a majority of said Legislature to serve for staggered terms of three years each. All members of the Authority continue to hold office until their successors are appointed and qualify.

Not more than two members of the Authority may belong to the same political party. Members of the Authority receive such compensation as is fixed by the County Legislature. The Act provides that the officers of the Authority shall consist of a Chairman, a Vice-Chairman and a Treasurer, who shall be members of the Authority, and a Secretary, who need not be a member of the Authority.

The present members of the Authority are as follows:

JEROME D. SCHAD, ESQ., Chairman – Jerome D. Schad was appointed a Commissioner in November 2013 and is serving his second term. A graduate of Geneva College, Duquesne University and the University at Buffalo Law School, he was admitted into law in New York State in 1972 and his private practice legal career spans 35 years. A former partner at Hodgson Russ LLP, Mr. Schad focused on tort, commercial and civil litigation, state and federal law compliance related to disability and represented and advised private and public entities. He has litigated cases in the New York State Supreme Court and the United States District Court for the Western New York District. Mr. Schad has also managed appeals to the Third and Fourth Appellate Divisions of the Supreme Court and New York State Court of Appeals. Most recently Mr. Schad was Majority Counsel to the Erie County Legislature where he provided counsel on matters related to the Erie County Charter and state and federal laws impacting the operation of county government. He resides in the Town of Amherst. Mr. Schad's term as a member of the Authority expires in April of 2019.

MARK S. CARNEY, ESQ., Vice Chairman – Mark S. Carney was appointed as a Commissioner to the Erie County Water Authority by resolution of the Erie County Legislature on March 15, 2018 and began serving his first term commencing April 27, 2018. Mr. Carney is a graduate of Canisius High School and Canisius College. He obtained his Juris Doctor from Thomas M. Cooley Law School in 1987. He is admitted to practice in New York State and the Federal Court System. He began working as a solo practitioner before forming his firm, Carney and Carney, which specializes in complex litigation including corporate, white collar, civil defense and matrimonial. He has practiced in City, County and Supreme Courts in Erie and surrounding counties, as well as New York City. He has argued cases before the New York State Fourth Appellate Division and Federal Court of the Western District of New York. Mr. Carney resides in the Town of Amherst.

Organization and Management

The Authority is administratively organized into the following departments: Production, Water Quality, Distribution, Engineering, Finance, Administration, Human Resources, Information Technology, Executive, and Office of the Secretary. The Office of the Secretary, which includes legal counsel, reports directly to the Board of Commissioners. The remaining departments are under the supervision and administrative control of the Executive Director.

Set forth below are brief descriptions of certain key senior administrative officers of the Authority.

[Vacant, Executive Director] – The civil service rules applicable to the Authority provide that the Deputy Director serves in the place of the Executive Director, whenever or wherever required, in the absence of the Executive Director.

ROBERT J. LICHTENTHAL, JR., Deputy Director – Robert J. Lichtenthal, Jr. was appointed Deputy Director of the Authority effective October 1, 2007. He has forty years of private and public-sector management experience, primarily in the fields of financial planning and control, with a focus on budgeting and cash flow planning. Since 1990 he has worked in

municipal government and municipal utility management, specifically sewer, water and electric utilities. From October 1990 until mid-1997, Mr. Lichtenthal served as the Administrator for the Village of Bergen in Genesee County, New York where he directed all financial operations of the village government and its utilities. In April 1996, he was appointed to a three-year term on the Authority Board of Commissioners. He was subsequently reappointed in 1999, 2002, and 2005. Mr. Lichtenthal holds a Bachelor of Science degree and an MBA with a concentration in Financial Planning and Control from the School of Management at the State University of New York at Buffalo.

RUSSELL J. STOLL, Executive Engineer – Russell Stoll is a Licensed Professional Engineer and currently serves as Executive Engineer of the Authority. Mr. Stoll has over 30 years of broad and varied engineering experience. His experience includes manager of design and construction phase projects for multi-phase, multi-discipline and multi-consultant public and private sector infrastructure and building projects. His role from 2012-2015 for the Authority was Distribution Engineer and Municipal Liaison responsible for coordinating design and construction of water main replacement/capital improvement projects and water main extensions in towns and villages throughout the Authority service area. As design unit manager, he supervised staff completing water facility record mapping, water main replacement designs and backflow prevention approvals. Mr. Stoll's previous positions as a consultant included Senior Project Manager and Regional Office Manager. He also served as Director of Engineering at the Niagara Frontier Transportation Authority. His responsibilities in these positions included overall project quality, budget and schedule. He has managed project design and construction team professionals, and teams of consultants and sub consultants. He has been involved in several professional organizations. Currently, Mr. Stoll is a member of the Cross Connection Control Foundation of Niagara Frontier Board and member of the American Water Works Association. He is also an adjunct faculty member at Erie Community College Construction Management/Civil Technology departments.

TERRENCE MCCRACKEN, Secretary – Mr. McCracken was appointed to the position of Secretary to the Authority in May of 2018. Since being hired by the Authority in 2014, Mr. McCracken has also served the Authority as the Director of Employee Relations and as Deputy Administrative Director.

Among Mr. McCracken's objectives in his previous titles with the Authority was a focus on reduction of workplace injuries and an improvement in employee relations. In his new title as Secretary, Mr. McCracken is committed to ensuring that the ECWA operates in an open, transparent and responsive manner.

His other public service includes time as an elected member of the Erie County Legislature, as the representative of the 8th Legislative District, as well as approximately eighteen years of service to the Town of Lancaster, NY where he oversaw the town's parks, buildings and grounds and numerous development projects. Mr. McCracken studied business while attending Canisius College.

Employees

In 2017, the Authority had approximately 250 employees (based on full-time equivalent employment of 2,080 hours per year), which included approximately nine seasonal employees on a full-time equivalent basis. All general staff employees are members of the New York State Civil Service System. Sixty-eight (68) administrative and technical employees of the Authority are represented by the Civil Service Employees Association ("CSEA"). The CSEA and the Authority entered into a five-year collective bargaining agreement which extends to March 31, 2022. One hundred and sixteen (116) production and maintenance employees, previously represented by the American Federation of State, County and Municipal Employees ("AFSCME"), are now members of the Brotherhood of Western New York Water Workers ("Brotherhood"). Pursuant to New York State Law, all terms and conditions of the expired contract with AFSCME will remain in place until such time as a new collective bargaining agreement is reached with the Brotherhood. Negotiations with the Brotherhood have begun and are ongoing.

Health Insurance

Through its membership in the Labor Management Healthcare Coalition, which negotiates with and selects healthcare providers for Coalition members, the Authority has converted to BlueCross BlueShield of WNY, as its single health care provider for medical coverage, and to Pharmacy Benefit Dimensions, as its single provider for prescription coverage. Consequently, health care costs have stabilized. The Authority maintains a seat on the Labor Management Healthcare Coalition, giving the Authority more control over its future healthcare costs.

Pension Plan

The Authority participates in the New York State and Local Employees' Retirement System ("State Plan"), which is a cost-sharing, multiple-employer, public employee retirement system. The State Plan provides various plans and options, some of which require employee contributions as authorized 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 serves as the sole trustee and administrative head of the System. The State Plan issues publicly available financial reports that contain financial statements and required supplementary information for the State Plan. The State Plan report may be obtained by writing to the New York State and Local Retirement Systems – Employees' Retirement System, 110 State Street, Albany, New York 12244 or on the Internet at www.osc.state.ny.us. Further information and discussion regarding the Authority's Pension obligation can be found in Note 6 of the Authority's 2017 Basic Financial Statements which are included in "APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016, AND INDEPENDENT AUDITORS REPORT."

GASB 45 (Other Post-Employment Benefits)

The Authority provides retiree health plans through Labor Management Healthcare Fund ("LMHF"). Retirees must meet age and years of service requirements to qualify for health benefits under this multiple-employer defined benefit healthcare plan (the "Plan"). Retiree benefits continue for the lifetime of the retiree and spousal benefits continue for their lifetime unless they remarry. There were 166 and 160 retirees receiving health care benefits at December 31, 2017 and December 31, 2016 respectively.

Eligible employees not represented by a bargaining unit will contribute 15% of their health insurance premium in retirement. Employees currently represented by the Brotherhood who were hired after November 23, 2011 and CSEA employees hired after July 26, 2012 will contribute 15% of their health insurance premium in retirement if they meet the eligibility requirements.

The Authority's annual postemployment benefit ("OPEB") cost is calculated based on the annual required contributions ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation for 2017 and 2016.

	<u>Year Ended December, 31</u>	
	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 7,585,438	\$ 6,784,692
Interest on net OPEB obligation	1,687,299	1,461,177
Adjustment to annual required contribution	<u>(2,195,224)</u>	<u>(1,901,033)</u>
Annual OPEB costs (expense)	7,077,513	6,344,836
Contributions made	<u>(1,959,249)</u>	<u>(1,822,400)</u>
Increase in net OPEB obligation	5,118,264	4,522,436
Net OPEB obligation - beginning of year	<u>33,745,978</u>	<u>29,223,542</u>
Net OPEB obligation - end of year	<u><u>\$38,864,242</u></u>	<u><u>\$33,745,978</u></u>

As of January 1, 2016, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial liability for benefits was \$66,999,419. The ratio of unfunded actuarial accrued liability to covered payroll of \$13,651,198 is 4.91 for 2016.

Further information and discussion regarding the Authority's reporting of GASB 45 obligations may be found at Note 8 of the Authority's 2017 Basic Financial Statements which are included in "APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016, AND INDEPENDENT AUDITORS REPORT."

Insurance

The Authority carries comprehensive general liability insurance in the amount of \$1,000,000 per occurrence and \$3,000,000 in the aggregate. The Authority is covered by an umbrella liability insurance policy in the aggregate amount of \$10,000,000. In addition, the Authority has insurance for floods and earthquakes, boiler and machinery, public officials' liability, workers' compensation, automobile, inland marine, property, travel, crime, cyber and professional liability. The Authority also requires its vendors, contractors and professional consultants to provide evidence of liability insurance for the benefit of the Authority.

Regulatory Oversight

Several regulatory bodies are charged with oversight of public benefit corporations like the Authority.

On May 4, 2018, the New York State Office of the State Comptroller ("OSC") released an audit report concerning the Authority's information technology. The OSC report included recommendations for improving the Authority's policies and procedures related to the use of its information technology. Authority officials agreed with the findings and have implemented a corrective action plan. The audit report can be found here: <http://www.osc.state.ny.us/localgov/audits/publicauth/2018/erie-co-water.pdf>

On June 8, 2018, the New York State Authorities Budget Office ("ABO") released an operation review report concerning the Authority's statutory compliance and included recommendations to promote accountability and transparency and to improve Authority business practices. The report alleged certain failures by the Authority's Board of Commissioners to meet their fiduciary duty, act independently and with the required duty of loyalty and care to the organization, have adequate information to approve resolutions and transactions, and conduct business with proper openness and transparency. Based on its findings, the ABO censured the commissioners that served during 2016 and 2017 and recommended that the Erie County Legislature replace any such commissioners still serving the Authority. The full report can be found here: <https://www.abo.ny.gov/reports/compliancereviews/Erie%20County%20Water%20Authority%20Final%20Report.pdf>

The Authority has implemented a number of the ABO recommendations, and it intends to address the remaining items in the future. The Authority believes that none of the issues raised in the ABO report will have a negative impact on the Authority's financial performance. The Authority has also taken other steps, which include terminating the employment of its Executive Director on June 14, 2018.

The ABO report and other incidents involving the Authority from earlier in the year prompted certain local governmental officials to call for abolishing the Authority and making it a department of Erie County. To abolish the Authority would require a home rule message from the Erie County Legislature to the State of New York. The State would then have to enact legislation terminating the Authority's existence. However, pursuant to subsection 2 of Section 1053 of the New York Public Authorities Law, the rights and properties of the Authority shall not pass to Erie County "until all its liabilities have been met and its bonds have been paid in full or such liabilities or bonds have otherwise been discharged...."

Because the ABO report mentioned certain violations of civil law (Freedom of Information Law, Public Officers Law and Public Authorities Law), the Erie County District Attorney is reviewing the matter. The District Attorney noted that the ABO did not believe it had uncovered any criminal activities, but he stated that he wanted experts in his office to review the matter to verify that conclusion. The District Attorney's statement can be found here: <http://www.wivb.com/news/local-news/video-erie-county-district-attorney-john-flynn-speaks-about-investigation-into-ecwa/1237680700> (as a video news article, this link may expire; there are, however, additional sources that reference the comments made by the District Attorney).

THE WATER WORKS SYSTEM

The following presents an overview of various aspects of the Water Works System. For additional information and certain opinions of Wendel WD Architecture, Engineering, Surveying & Landscape Architecture, PC, please see "APPENDIX A - OPINION OF THE AUTHORITY'S ENGINEERING CONSULTANT."

Service Area

The Authority’s service area generally consists of the suburban areas surrounding the City of Buffalo but does not include the City of Buffalo or the Town of Tonawanda (including the Village of Kenmore), which maintain their own water supply and distribution systems. The Water Works System presently serves 170,042 accounts and provides water to a population of approximately 550,000. The current service area of the Water Works System includes the following:

Western Genesee County	Seneca Nation of Indians
City of Lackawanna	City of Tonawanda
Town of Alabama	Town of Alden
Town of Amherst	Town of Aurora
Town of Bennington	Town of Boston
Town of Brant	Town of Cheektowaga
Town of Clarence	Town of Colden
Town of Concord	Town of Eden
Town of Elma	Town of Evans
Town of Hamburg	Town of Hanover
Town of Lancaster	Town of Marilla
Town of Newstead	Town of Orchard Park
Town of West Seneca	Village of Angola
Village of Blasdell	Village of East Aurora
Village of Depew	Village of Farnham
Village of Hamburg	Village of Lancaster
Village of Orchard Park	Village of Silver Creek
Village of Sloan	Village of Williamsville
Village of Alden*	

* Supplemental supply only

Ownership and Management Arrangements

The Authority operates and manages the Water Works System on a direct service basis where the Authority owns the assets and is responsible for their operation, maintenance, improvement and replacement; on a leased managed service basis where the Authority leases the assets from a municipality and is responsible for the operation and maintenance of the assets while the municipality is responsible for the improvement and replacement of assets; and on a bulk sale basis where the Authority contracts with the municipal customer to provide water while the municipality owns the assets and is responsible for their operation, maintenance, improvement and replacement, as well as billings and customer collections. The lease–management and bulk sale agreements are generally for terms of 10 years and are renewable.

The Authority has lease–management agreements with the following municipalities:

Town of Amherst	Village of Hamburg
Town of Aurora	Inter–Community Board
Town of Boston	Town of Lancaster
Town of Eden	Town of Newstead
County of Erie†	Town of Orchard Park
Town of Evans	Town of West Seneca

† Agreement with the County of Erie is for delivery of service to the Erie County Correctional Facility.

The Authority has bulk sale agreements with the following municipalities:

Town of Alabama	Town of Elma
Village of Alden*	Town of Eden
Village of Angola	Village of Farnham
Town of Bennington	Town of Hanover
Town of Brant	Monroe County Water Authority
Town of Colden	Village of Orchard Park
Village of East Aurora	Village of Silver Creek

* Supplemental supply only

The Authority is continuously reviewing and updating its various agreements as they come due. During agreement negotiations, the Authority continues to supply water and services to the affected municipalities under the same terms and conditions as are contained in the Authority's Tariff and expired lease-management or bulk sale agreements.

Water Supply

The Authority's water supply comes from Lake Erie and from the east branch of the Niagara River. The Authority's Sturgeon Point Treatment Plant is located approximately 15 miles south of the City of Buffalo in the Town of Evans and draws water from Lake Erie. The Authority's Van de Water Treatment Plan is located in the Town of Tonawanda and draws water from the Niagara River.

In addition to obtaining water from Lake Erie and the Niagara River, the Authority has emergency interconnections with the water distribution systems of the City of Buffalo, the Town of Tonawanda and the Village of Akron. These interconnections can be used during emergencies to supply limited amounts of water between the Authority and the connected municipality.

Treatment Facilities

The Authority owns and operates two water treatment facilities. The Sturgeon Point Water Treatment Plant in the Town of Evans began operation in 1961. The Jerome D. Van de Water Treatment Plant in the Town of Tonawanda began operation in 1980. These two water treatment plants are capable of producing a combined total of 156 million gallons per day ("MGD") based upon current water withdrawal permits and design capacities. The average water production for these two facilities in 2017 was 68.1 MGD.

The Sturgeon Point Water Treatment Plant has the following ratings: firm operating capacity of 90 MGD based upon the limits of the current water withdrawal permit; a design capacity for water intake of 128 MGD; filter capacity of 120 MGD, and operational capacity of 108 MGD, with one filter unit out of service. This plant draws raw water from Lake Erie through an intake located approximately 2,500 feet offshore. Raw water is conveyed from the intake via a six-foot diameter concrete lined tunnel. Five vertical turbine raw water pumps conduct the raw water to the main treatment facility. Filtered water is pumped into the transmission system via three horizontal centrifugal and four vertical turbine high service pumps.

The Van de Water Treatment Plant has the following ratings: firm design capacity of 66 MGD, expandable to approximately 150 MGD; design capacity for water intake of 150 MGD; filter capacity 66 MGD and operational capacity of 49.5 MGD, with one filter unit out of service. This plant draws raw water from the east branch of the Niagara River through an intake located approximately 1,500 feet offshore. Four vertical turbine raw water pumps conduct the raw water to the main treatment facility. Four vertical turbine high service pumps are used to pump filtered water into the transmission system.

Pumping Stations

The Authority operates and maintains 38 pump stations through its distribution system. The Authority owns 23 of the pump stations and operates an additional 15 pumping stations pursuant to lease-management arrangements.

All of the pump stations are monitored and controlled through the Authority's computerized Supervisory Control and Data Acquisition ("SCADA") system. The SCADA system is manned 24 hours a day, 365 days a year.

Storage Facilities

The Authority operates and maintains 37 water tanks throughout the distribution system. The Authority owns 19 of the water tanks and 18 tanks are owned by municipalities and are lease-managed by the Authority. All of the tanks are monitored and controlled through the Authority's SCADA system. The total design capacity of the tanks in the distribution system is 71.3 million gallons. In addition to the distribution tanks, the Authority owns 4 process tanks that are located at the Authority's treatment facilities and are used as part of the water treatment process.

Transmission and Distribution Facilities

The Authority operates and maintains 3,628 miles of distribution and transmission piping. Included in this total are service lines, distribution mains, hydrant branches, and transmission mains. The sizes of these pipes range from ¾ inch to 60 inches. The Authority owns approximately 2,453 miles of pipe and the remaining 1,175 miles of pipe are owned by various municipalities and are lease-managed by the Authority.

In addition to the pipe lines, the Authority operates and maintains 18,969 fire hydrants. The Authority owns 9,811 hydrants and the remaining 9,158 hydrants are owned by various municipalities and are lease-managed by the Authority.

Repairs and replacement of the transmission and distribution facilities in the direct service area of the system are generally carried out on an as-needed basis taking into account leak history, age of pipe, and fire flows. The Authority spends between \$8 million and \$10 million annually on water line replacements in the Direct Service area of the Water Works System.

In the lease-managed areas of the Water Works System, the Authority contacts the various municipalities on an annual basis with a list of pipe lines that are recommended for replacement.

The Authority owns and operates a state-of-the-art computerized leak detection unit. The leak detection unit is utilized continually throughout the system and special attention is given to areas such as creek crossings, rock areas, and off-road easements where the potential for undetected leaks is high. This unit is also used for pinpointing leaks for the Authority's repair crews, which in turn lowers the restoration costs associated with water line repairs.

Other Facilities

The Authority owns a service center, located in the Town of Cheektowaga, which houses line maintenance, information technology, and engineering operations of the Authority. The service center is manned on off-shifts, weekends and holidays by a dispatcher and dutyman to respond to emergencies. The service center also includes vehicle storage, maintenance garages, parts warehouse and storage, meter shop and other related facilities.

Customers

The Authority supplies water to its customers in one of the three following ways:

1. Direct Service – Where the Authority supplies water through facilities owned and operated by the Authority.
2. Lease Management – Where the Authority supplies water through facilities owned by another entity and operated by the Authority.
3. Bulk Sales – Where the Authority supplies water to a municipality and they distribute and operate their own distribution system.

The number of customers served by the Authority over the last five years is listed below:

Year	Number of Customers
2013	165,933
2014	168,069
2015	168,637
2016	169,297
2017	170,042

The classification of customer types for the last five years is shown below:

	<u>Number of Customers:</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	156,183	158,317	158,579	159,187	159,886
Commercial	7,480	7,479	7,656	7,659	7,659
Industrial	327	317	336	338	337
Public Authorities	627	620	692	718	717
Fire Protection	1,296	1,315	1,353	1,374	1,422
Bulk Sales	20	21	21	21	21
Total Number of Customers	<u>165,933</u>	<u>168,069</u>	<u>168,637</u>	<u>169,297</u>	<u>170,042</u>

The ten largest Non-Municipal and Municipal Customers based on revenues in 2017 are shown below:

Year End December 31, 2017	
<u>Non-Municipal Customers</u>	
Benderson Development Co.	\$ 404,437
Upstate Farms Cooperative	374,323
Rosina Food Products, Inc.	222,606
Mayer Brothers Apple Products, Inc.	221,928
Republic Engineered Products	204,243
Delta Sonic	191,359
BGMHC, LLC	133,506
Uniland Development Co.	127,912
Pyramid Company of Buffalo	127,084
Sky Harbor Property, LLC	<u>109,831</u>
Total of Largest Non-Municipal Customers	<u>\$ 2,117,229</u>
Percent of total billings	2.9%
<u>Governmental Customers</u>	
Town of Elma	\$ 1,655,535
State University of New York at Buffalo	662,811
Village of East Aurora	628,445
Village of Angola	368,021
Monroe County Water Authority	294,629
Village of Orchard Park	271,313
Seneca Nation of Indians	229,605
Town of Amherst	221,039
Village of Silver Creek	187,711
Niagara Frontier Transportation Authority	164,687
Town of Hanover	<u>119,869</u>
Total of Largest Municipal Customers	<u>\$ 4,803,665</u>
Percent of total billings	6.5%

Utilization

Daily Production and Delivery (MGD)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Average Daily Production	65.5	68.7	70.5	72.6	68.1
Peak Daily Production	90.9	82.3	91.1	110.4	86.8
Average Daily Metered Sales	46.3	45.4	45.2	48.6	44.9

Water production and sales for the most part are weather driven and therefore can vary greatly from year to year. In spite of the peak demands experienced by the Water Works System, the Authority was able to satisfy peak daily requirements without instituting any extraordinary water conservation programs.

Water Losses

All water systems have quantities of water that are not metered or billed. The difference between the amount of water produced by the Water Works System and the amount of water that is metered is classified as “unaccounted for water.” The major components of this unaccounted for water are line breaks, leaks, water main flushing, firefighting, meter errors, illegal connections, water treatment plant use, including filter backwashing, and miscellaneous inadvertent water loss.

The Authority tracks unaccounted for water by using a pure ratio of the amount of water billed versus the amount of water produced. This ratio is called the metered ratio of the system.

The metered ratios for the Water Works System over the last five years are listed below:

<u>Year</u>	<u>Metered Ratio</u>
2013	70.7%
2014	66.1%
2015	64.1%
2016	66.9%
2017	65.9%

The Authority has taken a number of actions in an attempt to reduce unaccounted for water. These include leak detection programs, meter change out and testing programs, prohibition of hydrant use by private parties, prosecution of individuals found to have illegal connections, and increased capital investment in main replacements.

Security

New York State Public Health Law §1125 - Water Supply Emergency Plans requires every water supplier to submit its' emergency plan to the commissioner every five years. The Authority complies with law through submission of its emergency plan to the Erie County Health Department as designee. The Emergency Response Plan was last submitted in December 2017. The Authority regularly reviews the security of its facilities and makes adjustments or improvements every year.

Federal, State and Local Regulation

The Safe Drinking Water Act (SDWA) is the main federal law that ensures the quality of your drinking water. Under the SDWA, the United States Environmental Protection Agency (EPA) sets standards for drinking water quality and oversees the states, localities, and water suppliers who implement those standards. In New York, the New York State Health Department enforces the EPA's regulations and often makes them even more stringent. The EPA sets standards for approximately 150 regulated contaminants in drinking water. For each of these contaminants, this federal agency sets a legal limit, called a maximum contaminant level (MCL). EPA regulations specify strict monitoring and reporting requirements to assure drinking water safety. In Erie County, the Erie County Health Department is the agency that administers and enforces these standards.

Although boil water orders are extremely rare, on July 21, 2016 the Erie County Health Department, out of an abundance of caution, issued a boil water order affecting approximately 250,000 people in the service area. At approximately 8:30 p.m. on July 20, 2016, the Authority detected a leak in the distribution system that was later identified as being located on a thirty-six inch (36") transmission main. Although water pressure began to recover within two hours of the event, the Erie County Health Department felt it was prudent to issue the order. All necessary testing was completed within a 48-hour period and no contamination of the drinking water was detected. The boil water order was lifted at 11:15 a.m. on July 23, 2016. The last such order was issued in 2006. Test results at that time also indicated no contamination had occurred. In 2017, the Authority was awarded a \$1.2 million grant from New York State to replace the failing transmission main.

The water produced and delivered by the Water Works System has always met or exceeded the most stringent water quality standards mandated by Federal, State, and local government regulations.

Permits, Licenses and Approvals

The Authority has an extraction permit for its Sturgeon Point Water Treatment Plant for 90 MGD and an extraction permit for its Van de Water Treatment Plant for 66 MGD. These permits were issued by the New York State Department of Environmental Conservation.

The Authority's operations are subject to annual review by the New York State Department of Health, which since 1953 has annually certified that the Authority's operations meet or exceed the standards established by the Department of Health. The review is now performed on behalf of the Department of Health by the Erie County Health Department, which also certifies the Authority's compliance with Erie County's sanitary code.

FINANCIAL OPERATIONS OF THE WATER WORKS SYSTEM

General

The Authority maintains its books and records in accordance with generally accepted accounting principles for governmental organizations and has an annual audit performed by an independent certified public accounting firm. The Authority has received an unqualified audit opinion in each of its years of operation since 1949, through and including the year ended December 31, 2017.

The Consolidated Annual Financial Report of the Authority for the Years Ended December 31, 2017 and 2016, which includes the audited financial statements of the Authority for the Fiscal Years ended December 2017 and 2016 and the auditor's report thereon, is set forth in "APPENDIX E – COMPREHENSIVE ANNUAL FINANCIAL REPORT INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016, AND INDEPENDENT AUDITORS REPORT."

The Authority has voluntarily adopted, with minor modifications, the Uniform System of Accounts prescribed by the New York State Public Service Commission. The Authority's rates, charges and accounting practices are not regulated by the New York State Public Service Commission.

Rates

The Act authorizes the Authority to fix rates and collect charges for the use of the facilities of, or services rendered by, the Water Works System so as to provide Revenues sufficient at all times to pay when due the principal of and interest on all bonds of the Authority, together with the maintenance of proper reserves therefor, in addition to paying the expenses of operating and maintaining the Water Works System, together with proper reserves for depreciation, maintenance and contingencies and all other obligations of the Authority.

The rates and charges set by the Authority for the sale of water and services are not currently subject to review, regulation or approval by any federal, state or local governmental agency or body.

Due to the changing dynamics of customer demand, the Authority began in October of 2015 a comprehensive Cost of Service & Rate Structure Review with a national consulting firm. The goal was to update the rate structure to more accurately represent the current business environment and to ensure that costs are being fairly allocated and recovered from the appropriate customer classes. The new rate structure, which became effective on January 1, 2017, eliminates declining

block rates and summer surcharges and assigns volumetric rates and infrastructure charges based on water meter size. For a more detailed description of the changes to the rate structure, see APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT, INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 AND INDEPENDENT AUDITORS REPORT - "Management Discussion and Analysis".

The 2018 and 2017 quarterly rate schedules are set forth below, together with alternate minimum charges if a customer's usage falls below a certain amount.

SMALL METER CUSTOMERS - Installed Meter Sizes 5/8", 3/4" and 1"

2017 Volumetric Rate — \$3.17 per 1000 gallons

2018 Volumetric Rate — \$3.23 per 1000 gallons

QUARTERLY							
SIZE OF METER	COMMODITY ALLOWANCE (GALLONS)	MINIMUM COMMODITY CHARGE		INFRASTRUCTURE INVESTMENT CHARGE		MINIMUM CHARGE	
		2017	2018	2017	2018	2017	2018
5/8 inch	9,000	\$28.53	\$29.07	\$19.65	\$19.65	\$48.18	\$48.72
3/4 inch	9,000	28.53	29.07	19.65	19.65	48.18	48.72
1 inch	9,000	28.53	29.07	19.65	19.65	48,18	48.72

LARGE METER CUSTOMERS - Installed Meter Sizes 1 1/4" and larger

2017 Volumetric Rate — \$2.84 per 1000 gallons

2018 Volumetric Rate — \$2.89 per 1000 gallons

QUARTERLY							
SIZE OF METER	COMMODITY ALLOWANCE (GALLONS)	MINIMUM COMMODITY CHARGE		INFRASTRUCTURE INVESTMENT CHARGE		MINIMUM CHARGE	
		2017	2018	2017	2018	2017	2018
1¼ inch	27,000	\$76.68	\$78.03	\$25.38	\$50.76	\$102.60	\$128.79
1½ inch	39,000	110.76	112.71	25.38	50.76	136.14	163.47
2 inch	63,000	178.92	182.07	40.59	81.18	219.51	263.25
3 inch	120,000	340.80	346.80	76.11	152.22	416.91	499.02
4 inch	198,000	562.32	572.22	126.87	253.74	689.19	825.96
6 inch	390,000	1,107.60	1,127.10	253.71	507.42	1,361.31	1,634.52
8 inch	630,000	1,789.20	1,820.70	405.90	811.80	2,195.10	2,632.50
10 inch	900,000	2,556.00	2,601.00	583.50	1,167.00	3,139.50	3,768.00
12 inch	1,230,000	3,493.20	3,554.70	1,090.86	2,181.72	4,584.06	5,736.42
20 inch	2,820,000	8,008.80	8,149.80	4,694.76	9,389.52	12,703.56	17,539.32
24 inch	3,840,000	10,905.60	11,097.60	9,480.84	18,961.68	20,386.44	30,059.28

PUBLIC CORPORATIONS AND SPECIAL IMPROVEMENT DISTRICTS - Customers who buy water for resale

2017 Volumetric Rate — \$2.48 per 1000 gallons

2018 Volumetric Rate — \$2.53 per 1000 gallons

QUARTERLY

<u>SIZE OF METER</u>	<u>COMMODITY ALLOWANCE (GALLONS)</u>	<u>MINIMUM COMMODITY CHARGE</u>		<u>INFRASTRUCTURE INVESTMENT CHARGE</u>		<u>MINIMUM CHARGE</u>	
		<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
1¼ inch	27,000	\$66.96	\$68.31	\$25.38	\$50.76	\$92.34	\$119.07
1½ inch	39,000	96.72	98.67	25.38	50.76	122.10	149.43
2 inch	63,000	156.24	159.39	40.59	81.18	196.83	240.57
3 inch	120,000	297.60	303.60	76.11	152.22	373.71	455.82
4 inch	198,000	491.04	500.94	126.87	253.74	617.91	754.68
6 inch	390,000	967.20	986.70	253.71	507.42	1,220.91	1,494.12
8 inch	630,000	1,562.40	1,593.90	405.90	811.80	1,968.30	2,405.70
10 inch	900,000	2,232.00	2,277.00	583.50	1,167.00	2,815.50	3,444.00
12 inch	1,230,000	3,050.40	3,111.90	1,090.86	2,181.72	4,141.26	5,293.62
20 inch	2,820,000	6,993.60	7,134.60	4,694.76	9,389.52	11,688.36	16,524.12
24 inch	3,840,000	9,523.20	9,715.20	9,480.84	18,961.68	19,004.04	28,676.88

The terms of payment for both quarterly and monthly bills are 15 days net cash calculated from the day the bill is rendered. Late payments are subject to a 10% penalty. See “FINANCIAL OPERATIONS OF THE WATER WORKS SYSTEM – Collections” below.

Over the past ten years, largely in conjunction with system consolidation efforts, the Authority has begun replacing traditional meters with E-coders which are radio read on a monthly or quarterly basis. Currently, 60.1% of the service area has radio read meters. All accounts billed monthly are read each month. The remaining accounts, billed on a quarterly basis are read at least annually with online or postcard readings solicited the remaining three quarters.

A nearly four-decade effort to promote conservation and water appliance efficiency is showing results with decreased water consumption per customer. At present, over 35% of the bills sent to Authority customers are for the monthly or quarterly minimum. Given the reality of rising repair and replacement costs of an aging infrastructure, and decreasing consumption, the Authority established an infrastructure investment charge in 2011. The infrastructure investment charge was implemented to maintain the Authority’s aggressive investment program in very costly system-wide infrastructure, and to allow for a more equitable distribution among customer classifications of fixed costs to provide a dependable, high quality water supply and fire protection services to all customers. In 2017, the infrastructure investment charge was 19.5% of water revenue as compared to 16.8% and 15.0% in 2016 and 2015, respectively.

Based on information updated through March 1, 2018 the following table compares the average residential water bill for 19,750 gallons rendered in the various departments and municipalities in Erie County.

Area Rate Comparisons

Department/Municipality	Cost for 1,000 Gallons	19,750 Gallons	Effective Date
Village of Akron (outside the Village)	\$ 12.32	\$243.33	July 15, 2017
Town of Hanover (outside District 2)	11.26	222.38	February 1, 2018
Village of East Aurora (outside the Village) - gross rates	11.14	220.02	September 22, 2017
Village of East Aurora (outside the Village) - net rates	10.58	209.00	September 22, 2017
Town of Hanover (inside District 2)	10.01	197.63	February 1, 2018
Village of East Aurora (inside the Village) - (cf) - gross rates	8.67	171.25	September 22, 2017
Village of East Aurora (inside the Village) - gross rates	8.52	168.30	September 22, 2017
Village of Akron (inside the Village)	8.22	162.30	July 15, 2017
Town of Hanover (outside District 1)	8.16	161.15	February 1, 2018
Village of East Aurora (inside the Village) - (cf) - net rates	8.06	159.18	September 22, 2017
Village of Springville	8.03	158.63	April 1, 2017
Village of East Aurora (inside the Village) - net rates	8.01	158.14	September 22, 2017
Village of Orchard Park (outside the Village)	7.69	151.87	July 1, 2016
Village of Angola (outside the Village)	7.23	142.78	February 1, 2018
Village of Orchard Park (inside the Village)	7.06	139.43	July 1, 2016
Village of North Collins (outside the Village)	6.99	138.01	April 1, 2010
Town of Aurora (District e/o Village of E Aurora)	6.90	136.28	July 1, 2012
Village of Farnham (outside the Village)	6.81	134.45	June 1, 2016
Village of Farnham (Brant Water Supply Area)	6.61	130.45	June 1, 2016
Village of Angola (inside the Village)	6.55	129.45	February 1, 2018
Village of Gowanda	6.21	122.69	April 1, 2015
Town of Elma - Outside District (gross rates)	5.33	105.34	January 1, 2017
Village of Farnham (inside the Village)	5.08	100.24	June 1, 2016
Village of Kenmore	5.05	99.75	June 1, 2016
Village of North Collins (inside the Village)	4.99	98.51	June 1, 2010
Town of Elma - Inside District (gross rates)	4.85	95.87	January 1, 2017
City of Buffalo - (cf) - (regular rates- 5/8" meter)	4.82	95.17	July 1, 2012
Town of Elma - Outside District (net rates)	4.80	94.83	January 1, 2017
Town of Aurora (Elma Water supply)	4.51	89.07	July 1, 2012
Town of Hanover (inside District 1)	4.46	88.01	February 1, 2018
Town of Tonawanda	4.44	87.67	January 1, 2018
Town of Elma - Inside District (net rates)	4.37	86.34	January 1, 2017
Erie County Water Authority	4.22	83.44	January 1, 2018
Town of Grand Island	3.15	62.25	January 1, 2017

Collections

Customers are billed either on a monthly or quarterly basis depending on the type of customer (commercial or residential), and the level of water usage. Customers are provided a 15-day payment period from the billing date to pay their current water charges. A late penalty of 10% is assessed on any unpaid balance 10 days after the due date. An account will receive a collection letter if the account is active, has a receivable balance greater than \$100, has a receivable balance that is

90 days or greater in arrears and has no current collections activity. The collection letter indicates that the customer could be subject to the shut-off of their water service and additional delinquent charges.

Following 15 days from the letter date, an unpaid account is sent to a collector who schedules a visit to the customer with an “unpaid bill” notice. After the account is posted, the customer has three working days to either pay the bill in full or submit a partial payment (25%–33%) with a signed promissory agreement for the remaining balance. The agreement is normally kept to a term of 90 days, with some exceptions to 180 days. In agreements with lease managed and some newer direct service water districts, unpaid water bills are guaranteed by the respective municipality. In other areas, service is discontinued until the balance is paid. Allowances for doubtful accounts at December 31, 2017 and 2016 total \$214,404 and \$406,070 respectively. At the end of 2017, the Authority wrote-off \$187,495 in customer accounts receivable.

Historical, Budgeted and Projected Operating Results

The following table summarizes the Authority’s historical debt service coverage for each of the Authority’s most recent five fiscal years ending December 31, 2017, the Authority’s projected 2018 debt service coverage based on the Authority’s 2018 budget, and the Authority’s projected debt service coverage for the period 2019 through 2022. The historical information set forth in the table has been derived by management of the Authority from the financial statements of the Authority. The financial statements of the Authority for the years ended December 31, 2017 and 2016 are included in APPENDIX E. The 2018 budget-based projections and the projections for 2019 through 2022 are based on a series of assumptions, which the Authority believes to be reasonable, but which are subject to change.

Erie County Water Authority
Rate Projections

	ACTUALS					BUDGETED	PROJECTED†			
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Metered Revenue:										
Residential & Commercial	\$ 43,030,743	\$ 43,404,906	\$ 44,234,378	\$ 49,661,984	\$ 44,503,070	\$ 46,020,897	\$ 46,941,314	\$ 47,880,140	\$ 48,837,744	\$ 49,814,499
Industrial	1,585,025	1,689,835	1,721,516	1,910,133	1,957,186	1,949,640	1,988,633	2,028,406	2,068,974	2,110,353
Public Authorities	2,147,079	2,275,352	2,394,994	2,519,639	2,438,488	2,546,135	2,597,058	2,648,999	2,701,979	2,756,019
Sales to Other Utilities	4,275,543	3,686,340	3,625,852	4,281,064	3,940,896	3,994,166	4,074,050	4,155,531	4,238,641	4,323,414
Other Water Revenue	1,883,493	2,011,698	2,281,933	3,153,218	1,348,054	1,272,203	1,272,203	1,272,203	1,272,203	1,272,203
Total Metered Revenue	\$ 52,921,883	\$ 53,068,131	\$ 54,258,673	\$ 61,526,038	\$ 54,187,694	\$ 55,783,041	\$ 56,873,258	\$ 57,985,279	\$ 59,119,541	\$ 60,276,488
Fire Protection	4,145,727	4,266,755	4,275,127	4,336,263	4,366,663	4,386,350	4,386,350	4,386,350	4,386,350	4,386,350
Infrastructure Investment Charge	5,885,407	7,992,100	10,355,324	13,251,131	14,186,008	15,548,594	16,839,779	16,839,779	16,839,779	16,839,779
Interest and Misc Income	1,005,531	938,490	1,061,221	1,016,014	1,075,571	885,284	891,791	901,035	904,503	918,281
Total Revenue	\$ 63,958,548	\$ 66,265,476	\$ 69,950,345	\$ 80,129,446	\$ 73,815,936	\$ 76,603,269	\$ 78,991,178	\$ 80,112,443	\$ 81,250,173	\$ 82,420,898
Expenses										
Payroll	14,946,835	15,140,745	15,713,753	13,651,198	15,873,625	17,732,852	18,264,838	18,812,783	19,377,166	19,958,481
Power Purchased	4,030,394	4,667,540	3,525,641	3,309,796	2,939,052	4,000,000	4,120,000	4,243,600	4,370,908	4,502,035
Chemicals	1,050,355	1,021,089	987,077	995,305	759,882	1,051,362	1,082,903	1,115,390	1,148,852	1,183,317
Employee Benefits	7,695,485	8,248,420	7,595,470	8,845,958	7,912,894	9,383,083	9,606,560	9,898,363	10,202,728	10,520,216
Admin Credits	(1,807,457)	(1,294,821)	(1,822,135)	(2,061,600)	(2,311,224)	(3,009,676)	(2,523,296)	(2,649,461)	(2,781,934)	(2,921,030)
Insurance (other than Workers Comp)	624,041	621,564	623,982	658,187	668,472	682,673	716,807	752,647	790,279	829,793
Other Expenses	12,917,550	14,294,265	15,114,932	16,867,126	15,846,656	19,612,322	20,004,568	20,404,660	20,812,753	21,229,008
Total Expenses	\$ 39,457,203	\$ 42,698,802	\$ 41,738,720	\$ 42,265,970	\$ 41,689,357	\$ 49,452,616	\$ 51,272,380	\$ 52,577,982	\$ 53,920,752	\$ 55,301,820
Total Available for Debt Service	\$ 24,501,345	\$ 23,566,674	\$ 28,211,625	\$ 37,863,476	\$ 32,126,579	\$ 27,150,653	\$ 27,718,798	\$ 27,534,461	\$ 27,329,421	\$ 27,119,078
Debt Service to Be Paid out in Year	\$ 11,731,272	\$ 11,642,106	\$ 11,645,333	\$ 10,253,117	\$ 10,727,082	\$ 10,591,257	\$ 6,051,603	\$ 5,159,952	\$ 5,160,729	\$ 5,487,726
Debt Coverage Ratio	2.09	2.02	2.42	3.69	2.99	2.56	4.58	5.34	5.30	4.94
Amount Generated for Capital	12,770,073	11,924,568	16,566,292	27,610,359	21,399,497	16,559,396	21,667,195	22,374,509	22,168,692	21,631,352

^ Debt Service to Be Paid out includes projected payments on a \$20,000,000 debt issuance beginning in 2019

† Although the projections shown above are based upon assumptions which the Authority believes are reasonable, they may be subject to change

Management's Discussion and Analysis

Management's Discussion and Analysis can be found in "APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT, INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 AND INDEPENDENT AUDITORS REPORT."

Management provides the following discussion and analysis ("MD&A") of the Authority's financial activity for the year ended December 31, 2017.

Financial Highlights

- The Authority's net position increased \$14,412,814 as a result of activity for the year ended December 31, 2017. Net income represents \$12,784,445 of the 2017 increase. The remaining increase of \$1,628,369 resulted from capital contributions (contributions in aid of construction). During 2016, the Authority's net position increased \$21,040,163. Net income represents \$19,396,076 of the 2016 increase. The remaining increase of \$1,644,087 represents capital contributions.
- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources by \$358,668,071 and \$344,255,257, representing net position at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, unrestricted net position was \$17,313,135 and \$22,836,468 respectively, and may be used to meet the Authority's ongoing obligations.
- The Authority's bonded indebtedness, including related bond premiums and discounts, decreased \$9,097,408 in 2017 compared to a decrease of \$11,112,313 in 2016. The net decrease in 2017 resulted from scheduled principal payments of \$8,590,000 and annual net amortization of premiums and discounts of \$507,408. A principal decrease of \$14,890,000 in 2016 resulted from the issuance of the Series 2016 Refunding Bonds in the amount of \$30,725,000, the proceeds of which were used to redeem \$7,850,000 of Series 2012 bonds and \$29,705,000 of Series 2007 bonds. Scheduled principal payments throughout the year on all issues totaled \$8,060,000 in 2016. The 2016 Series Refunding Bonds resulted in increased bond premiums of \$4,378,154 and bond discounts of \$109,654, offset by annual net amortization of \$490,813.

Following are some of the issues and events affecting revenue in 2017:

- Revenue from water sales decreased 8.1% in 2017, compared to a 14.8% increase in 2016. Decreases of 6.2% in total water output from both treatment plants and 7.7% in billed consumption in 2017 resulted in revenue reductions. Billed consumption in 2017 was 16.4 billion gallons, compared to 17.7 billion gallons and 16.5 billion gallons in 2016 and 2015, respectively. Metered water sales are heavily impacted by weather extremes, as was the case in 2016. Total precipitation of 3.11 inches in June and July of 2016 was 54.9% lower than the normal level of 6.89 inches.
- The Authority asked for voluntary water restrictions in many of its larger service areas between August 6th and August 13th, 2017 due to a leak in the forty-two-inch transmission main leaving the Sturgeon Point Treatment Plant. Those restrictions also contributed to the reduction in consumption in 2017. The main was subsequently repaired.
- As a result of the rate study completed in 2016, a new rate structure was adopted and became effective January 1, 2017. The structural changes were designed to allow for a more equitable distribution of fixed costs among customer classifications, and to ensure a more dependable revenue stream in years of extreme weather. Although the changes were largely revenue neutral overall, a summary of the changes is as follows:
 - ✓ Revenue from Infrastructure Investment Charges ("IIC"), a fixed fee based on meter size, increased 7.1% in 2017. IIC revenue represented 19.5% of all water revenue — up from 16.8% in 2016. Charges on meters one-inch and smaller remained unchanged.

Recommended increases on larger meters are being phased-in over a three-year period beginning in 2017.

- ✓ The declining block rate structure was eliminated. Volumetric rates per gallon are now based on a flat rate per 1,000 gallons, with minimum billed usages based on meter size. Rates for those customers with small meters (one-inch and smaller) remained the same. Rates for larger meters, and customers who buy water for resale to others, experienced slight decreases in their rate per 1,000 gallons to mitigate the elimination of the declining block structure.
- ✓ Surcharges for excessive summer usage were also removed from the rate structure. On average, summer surcharges made up 1.6% of total water revenue over the past ten years.
- Revenue from leasing space to cell antenna operators decreased 8.0% due to two contract terminations in March. These losses were somewhat mitigated by contractual escalations and one new contract at a lower rate in October of 2017.
- Revenue from interest on investments increased \$74,528 (20.7%) due to higher overall rates and a significant improvement in interest rates of US Treasury securities during 2017.

Following are some of the issues and events affecting expenses in 2017:

- Operation and administration expenses decreased 1.9%, or \$533,718.
 - ✓ Health insurance costs decreased \$457,538 (16.1%) from \$2,837,324 in 2016 to \$2,379,786 in 2017. The decline is a direct result of lower medical and prescription claims for both active and Medicare eligible retirees.
 - ✓ Pension expense decreased \$144,391, due in part, to improved market results on New York State and Local Retirement System (“NYSLRS”) investments. The Authority is allocated 0.0561145% of the NYSLRS’s net pension liability. Contributions based on employee retirement tiers and salaries also decreased \$340,519 from \$2,733,700 in 2016 to \$2,393,181 in 2017.
 - ✓ Power costs decreased \$370,744 (11.2%) from \$3,309,796 in 2016 to \$2,939,052 in 2017. The amount paid for the commodity decreased \$512,130, which was offset by a \$141,386 increase in delivery charges. Overall, usage decreased 13.8% during 2017, while the commodity rate increased 2.4%.
 - ✓ The cost of small service installations increased 16.0%, a net cost increase of \$105,538. Although tariff fees remained unchanged, new contracts in 2017 contained a 46.0% increase in payments to contractors for installations in the North service area.
 - ✓ In 2016, the Authority contracted with an engineering firm to review operational processes at the water treatment plants. Payments under that contract increased \$114,379 in 2017.
- Maintenance expenses decreased 0.3%, or \$42,895.
 - ✓ A significant decrease in the number of main breaks and hydrant replacements in 2017 resulted in reduced payments to contractors for repairs and restoration costs. In 2016, Authority forces and contractors responded to 1,554 breaks compared to 1,250 in 2017, a 19.5% reduction. Repair payments to contractors decreased \$244,423 (15.5%) even with \$406,507 in payments for the Sturgeon Point repair mentioned below. Restoration costs decreased 25.8%, or \$578,121, as a result of the decreased number of breaks in 2017.
 - ✓ On August 6, 2017, a serious leak was discovered in the forty-two-inch water transmission main leaving the Sturgeon Point Water Treatment Plant. The repair, which was completed with no loss

of service to Authority customers, cost \$1,078,538.

- Interest expense decreased \$638,049 due to a decrease in the bond principal outstanding as a result of the 2017 bond maturities and the refunding of the 2007 Series Bonds and 2012 Series Bonds in September of 2016. Overall, true interest costs on the 2016 Series Bonds are lower at 2.40% as compared to the 2007 Series Bonds at 4.77%, and the 2012 Series Bonds at 2.41%.
- Other post-employment benefit (OPEB) expense increased \$595,828, from \$4,522,436 in 2016 to \$5,118,264 in 2017. In addition to the accumulation of interest on unpaid actuarial accrued liability and normal cost plus the current amortization of unpaid liability, updated health care trend rates impacted the Authority’s net OPEB obligation.

The information contained in this analysis should be used by the reader in conjunction with the information contained in the audited financial statements and the notes to those financial statements, all of which can be found in “APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT, INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016, AND INDEPENDENT AUDITORS REPORT.”

Capital Improvement Program

The Authority utilizes a five-year capital planning outlook to prioritize capital improvement projects. During the annual budget process, this program is reviewed and revised as necessary to take into account changing regulatory, security, reliability, and health and safety issues.

Major projects in the 2018 capital budget of \$36,987,288 include the following:

- Replace raw water screens, discharge piping, valves and sluice gates at the Sturgeon Point Treatment Plant — \$5,228,600
- Construction of a new electrical substation for Ball Pump Station — \$4,627,342
- Water main replacements in the Towns of Amherst, Cheektowaga, Clarence, Hamburg and West Seneca in the Cities of Lackawanna and Tonawanda, and in the Village of Blasdell — \$14,315,505
- An upgrade of our current wide area network to increase bandwidth — \$2,438,938
- Expand control of an upgraded SCADA network to the Van DeWater Treatment Plant, centralizing control over the distribution and production systems — \$3,339,190

Projected Capital Improvement Program

The following table sets forth the total projected expenditures for the Water Works System for the period 2019 through 2022:

	Projected Capital Budget
2019	\$ 28,560,000
2020	29,988,000
2021	31,487,400
2022	33,061,770
	\$123,097,170.00

The four-year projected capital budget of \$123,097,170 will be funded with \$87,841,751 in projected contributions from operations and the remaining \$35,255,419 will be funded from available cash.

Security risks, and the risk of power outages have driven infrastructure enhancements and redundancy throughout the production system which includes Authority treatment facilities, pump stations and tanks over the past ten years.

As a result of a recent review of the Authority's aging distribution system, the Authority has begun a program to revamp how it plans for capital expenditures in one to five-year time frames and also longer horizons up to fifty years, especially as it relates to the replacement of water mains.

In 2019, the Authority's debt service drops significantly and, at that time, a long-term capital plan will include both revenue and debt financed infrastructure improvements with the goal of replacing areas of the distribution system which have been the source of increasing repair costs over the past years. The biggest fiscal challenge on the horizon is to generate sufficient resources to help meet the infrastructure needs of the system.

The Authority's Engineering Consultant has concluded that the projected capital improvement program is responsive to the long-term operating requirements of the service area. See "APPENDIX A - OPINION OF THE AUTHORITY'S ENGINEERING CONSULTANT" for additional information regarding the capital improvement program.

Economic Condition and Outlook

The local economic outlook for Western New York has improved as a result of several economic development projects in the region and general stabilization in the State and National economies. The Authority service area within Erie County encompasses some of the most affluent, growing communities in Western New York.

Due to individual conservation efforts and changes in Federal and State laws and regulations, which require appliances to use less water, significant increases in water consumption are generally not projected. At present, over 35% of the bills sent to Authority customers are for the monthly or quarterly minimum consumption.

Given the reality of lower consumption and rising repair and infrastructure costs, the Authority adopted an infrastructure investment charge with the 2011 budget. The infrastructure investment charge was implemented to maintain the Authority's infrastructure and to allow for a more equitable distribution among customer classifications of fixed costs. Revenues generated from the charge are being used for infrastructure repairs, replacements and improvements. In 2017 19.5% of total water sales revenue was derived from the infrastructure investment charge as compared to 16.8% in 2016.

The prudent practices of the Erie County Water Authority are reflected in the operating results, reported over a ten-year period in the Statistical Section of the Authority's Comprehensive Annual Financial Report. See "APPENDIX E - COMPREHENSIVE ANNUAL FINANCIAL REPORT INCLUDING FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016, AND INDEPENDENT AUDITORS REPORT" for the Authority's Report and "APPENDIX D - INFORMATION REGARDING THE COUNTY."

COVENANT BY THE STATE OF NEW YORK

The Act sets forth the pledge and agreement of the State of New York that it will not limit or alter the rights vested by the Act in the Authority to acquire, construct, maintain, operate, reconstruct and improve the properties of the Authority, to establish and collect the revenues, rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with holders of obligations of the Authority or in any way impair the rights and remedies of such holders, until such obligations, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of such holders, are fully met and discharged.

LEGALITY FOR INVESTMENT

The Act provides that (i) the State of New York and all public officers, municipalities, political subdivisions and public bodies, and agencies thereof; (ii) all banks, trust companies, savings banks and savings associations, including building and loan associations, savings and loan associations, investment companies and other person carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, which banks, trust companies, and other such institutions are organized and existing under the laws of the State of New York; and (iii) all executors, administrators, guardians, trustees and other fiduciaries acting under the laws of the State of New York, other than any individual fiduciary, may legally invest any sinking funds, monies or other funds belonging to them or within their control in obligations of authorities created pursuant to the Act and such obligations will be authorized security for any and all public deposits.

LITIGATION

In the opinion of Margaret A. Murphy, Esq., in-house counsel to the Authority, there is no litigation pending or, to the best of his knowledge, threatened, which (i) questions the corporate existence of the Authority or the titles of the officers of the Authority to their respective offices, (ii) seeks to restrain or enjoin the issuance or delivery of the Series 2018 Bonds or the collection of the revenues pledged to the payment of the Series 2018 Bonds, (iii) contests or affects the validity of the Series 2018 Bonds or the Resolution, (iv) in any way contests or affects the collection or the pledge of the revenues pledged to the payment of the Series 2018 Bonds or contests the powers of the Authority or any authority for the issuance of the Series 2018 Bonds, the adoption of the Resolution or the application of the proceeds of the Series 2018 Bonds for the purposes and in the manner described herein, or (v) may result in any material adverse change to the Water Works System or the financial condition of the Authority.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with the covenants described herein, and the accuracy of certain representations by the Authority, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that interest on the Bonds is not treated as a specific preference item for purposes of calculating the federal alternative minimum tax imposed under the Code with respect to individuals and corporations, although it is included in the adjusted current earnings when calculating corporate alternative minimum tax. Bond Counsel is further of the opinion that interest on the 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 and the City of Yonkers).

The Code imposes various requirements that must be met in order that interest on the Bonds will be and remain excluded from gross income for federal income tax purposes. Included among these requirements are restrictions on the investment and use of proceeds of the Bonds and the rebate of certain earnings in respect of such investments to the United States. Failure to comply with the requirements of the Code may cause interest on the Bonds to be included in gross income for purposes of federal income tax retroactive to the date of original execution and delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs. The Authority has covenanted to comply with the requirements of the Code and has made representations addressing various matters relating to the requirements of the Code.

Certain requirements and procedures contained or referred to in the Certificate as to Arbitrage and Use of Proceeds and other relevant documents may be changed, and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of Bond Counsel. The opinion of Bond Counsel states that no opinion is rendered as to the exclusion from gross income of interest on the Bonds for purposes of federal income taxation on or after the date on which any change occurs or action is taken or omitted under the Certificate as to Arbitrage and Use of Proceeds or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Phillips Lytle LLP.

Certain maturities of Bonds (the “Discount Bonds”) are being sold to the initial purchasers at prices less than the stated principal amounts thereof. The difference between the stated principal amount of the Discount Bonds and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity were sold constitutes original issue discount that is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant yield basis over the term of each Discount Bond and the basis of such Discount Bond acquired at such initial offering price by an initial purchaser of each Discount Bond will be increased by the amount of such accrued discount. Owners of Discount Bonds are advised to consult with their own tax advisors with respect to the tax consequences of owning such Discount Bonds.

Certain maturities of Bonds (the “Premium Bonds”) are being sold to the initial purchasers at prices greater than the stated principal amount thereof. The Premium Bonds will be subject to requirements under the Code relating to tax cost reduction associated with the amortization of bond premium and, under certain circumstances, the initial owner of a Premium Bond may realize taxable gain upon disposition of Premium Bonds even though sold or redeemed for an amount less than or equal to such owner’s original cost of acquiring Premium Bonds. The amortization requirements may also result in the reduction of the amount of stated interest that an owner of Premium Bonds is treated as having received for federal tax purposes (and an adjustment to basis). Owners of Premium Bonds are advised to consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on, or disposition of, the Bonds may have collateral federal income tax consequences for certain taxpayers, including financial corporations, insurance companies, Subchapter S corporations, certain foreign corporations, individual recipients of social security or railroad retirement benefits, individuals benefiting from the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Prospective purchasers should consult their tax advisors as to any possible collateral consequences of their ownership of, accrual or receipt of interest on, or disposition of the Bonds. Bond Counsel expresses no opinion regarding any such collateral federal income tax consequences.

Interest paid on tax-exempt obligations is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. Interest on the Bonds may be subject to backup withholding if such interest is paid to a registered owner who or which (i) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (ii) has been identified by the IRS as being subject to backup withholding. Amounts withheld under the backup withholding rules will be paid to the IRS as federal income tax withheld on behalf of the registered owner of the Bonds and will be allowed as a refund or credit against such owner’s federal income tax liability (or the federal income tax liability of the beneficial owner of the Bonds, if other than the registered owner).

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authority and represents Bond Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Current and future legislative proposals, if enacted into law, administrative actions or court decisions, at either the federal or state level, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subjected to state income taxation, or otherwise have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Bonds for federal or state income tax purposes. The introduction or enactment of any such legislative proposals, administrative actions or court decisions may also affect, perhaps significantly, the value or marketability of the Bonds. For example, proposals have been made that could limit the exclusion from gross income of interest on obligations like the Bonds for taxpayers who are individuals and whose income is subject to higher marginal tax rates or that could otherwise significantly reduce the benefit of the exclusion from gross income of interest on obligations like the Bonds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

RATINGS

The Series 2018 Bonds have been rated “_____” by Standard & Poor’s and “_____” by Fitch Ratings on the date of the initial issuance and delivery of the Series 2018 Bonds. Generally, a rating agency bases its rating on information and materials furnished to it and on investigations, studies and assumptions made by such rating agency. There is no assurance that any rating will continue for any given period of time or will not be revised downward, suspended or withdrawn entirely by the rating agency if, in its judgment, circumstances warrant. Any lowering, suspension or withdrawal of the rating might have an adverse effect upon the market price or marketability of the Series 2018 Bonds. The underwriter and the Authority undertake no responsibility after the issuance of the Series 2018 Bonds to assure the maintenance of any of the ratings, or to oppose any revision or withdrawal thereof.

MARKET FACTORS

The financial condition of the Authority, as well as the market for the Series 2018 Bonds, could be affected by a variety of factors, some of which are beyond the Authority’s control. There can be no assurance that adverse events in the State, including, for example, the seeking by a municipality or public authority of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Series 2018 Bonds. If a significant default or other financial crisis should occur in the affairs of the State or any of its agencies or political subdivisions, thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the Authority to arrange for additional borrowings and the market for and market value of outstanding debt obligations, including the Series 2018 Bonds, could be adversely affected.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), certain information regarding the Authority is required to be filed with the Trustee and with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) System for municipal securities disclosures. In order to assist the Underwriter in complying with the requirements of Rule 15c2-12, the Borrower will enter into a Continuing Disclosure Agreement, dated the date of the initial delivery of the Series 2018 Bonds (the “Continuing Disclosure Agreement”). See “APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

The Authority is also a party to continuing disclosure agreements with respect to the Series 2008 Bonds and the Series 2016 Bonds (collectively, the “Prior Disclosure Agreements”). The Prior Disclosure Agreement for the Series 2008 Bonds and the Series 2016 Bonds requires the Authority to provide Manufacturers and Traders Trust Company, as dissemination agent (the “Dissemination Agent”) with certain annual operating and financial information for filing by the Dissemination Agent with EMMA.

For the fiscal years ended December 31, 2014 through 2017, the Authority properly filed its annual operating and financial information as required by the Prior Disclosure Agreements. With respect to the fiscal years ended December 31, 2012 and 2013, the Authority believed it had provided the proper annual operating and financial information to EMMA as required by the Prior Disclosure Agreement for the Series 2007 Bonds. Upon an internal compliance review conducted in June 2015 by the Authority, it was determined that the information was not posted. The Authority remedied this failure by filing such operating data and financial information with EMMA on June 9, 2015. Additionally, on August 22, 2016, the Authority filed historical Collection Rates data with EMMA, which was required to be filed under the Prior Disclosure Agreements but was inadvertently not included in the Authority’s annual filings with EMMA in 2012-2015.

The Authority is currently in compliance with its continuing disclosure obligations and intends to timely file with EMMA the annual operating data and financial information required by the Continuing Disclosure Agreement.

INDEPENDENT ACCOUNTANTS

The financial statements of the Authority for the years ended December 31, 2017 and 2016, set forth in APPENDIX E have been audited by Drescher & Malecki LLP, independent accountants, whose report thereon appears also in APPENDIX E.

FINANCIAL ADVISOR

Capital Markets Advisors, LLC, Orchard Park, New York, has served as financial advisor to the Authority for the issuance of the Series 2018 Bonds.

UNDERWRITING

The Series 2018 Bonds are being purchased for a public reoffering by Jefferies LLC (the “Underwriter”). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2018 Bonds from the Authority at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Series 2018 Bonds of \$_____.00, plus a net reoffering premium of \$_____, less an underwriter’s discount of \$_____) and to make a public offering of the Series 2018 Bonds. The Bond Purchase Agreement with respect to the Series 2018 Bonds provides that the Underwriter will purchase all of the Series 2018 Bonds, if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell the Series 2018 Bonds to certain dealers (including depositing the Series 2018 Bonds into investment trusts) and others at prices lower than the initial public offering prices. The initial public offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into an agreement (the “Agreement”) with E*TRADE Securities LLC (“E*TRADE”) for the retail distribution of municipal securities. Pursuant to the Agreement, the Underwriter will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

LEGAL MATTERS

Phillips Lytle LLP, New York, New York, Bond Counsel to the Authority, will render its approving opinion as to the validity and legality of the Series 2018 Bonds, copies of which will be available at the time of delivery of the Series 2018 Bonds and the form of which is annexed hereto in Appendix F. Certain legal matters will be passed upon for the Authority by its in-house counsel, Margaret A. Murphy, Esq., Buffalo, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Harter Secrest & Emery LLP, Rochester, New York.

OTHER INFORMATION

Additional information may be obtained upon request from Robert J. Lichtenthal, Jr., Deputy Director, Erie County Water Authority, 295 Main Street, Room 350, Buffalo, New York 14203–2494, telephone (716) 849–8470.

Any statements made in this Official Statement and indicated to involve matters of opinion or estimates are represented to be opinions or estimates held or made in good faith. No assurance can be given, however, that the facts will materialize as so opined or estimated. Neither this Official Statement, nor any statement respecting the Authority or the Series 2018 Bonds which may have been made orally or in writing, is to be construed as a contract with the owners of the Series 2018 Bonds.

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This Official Statement is submitted only in connection with the sale of the Series 2018 Bonds by the Authority and may not be reproduced or used in whole or in part for any other purposes.

ERIE COUNTY WATER AUTHORITY

By: _____
Jerome D. Schad, Esq., Chairman

Dated: _____, 2018

APPENDIX A

OPINION OF THE AUTHORITY'S ENGINEERING CONSULTANT

APPENDIX B

DEFINITIONS

The following are definitions of certain of the terms defined herein or in the Resolution or the Series 2018 Resolution and used in this Official Statement:

“**Act**” means the Erie County Water Authority Act, Article 5, Title 3, Public Authorities Law, Sections 1050 through 1073, inclusive, and all laws amendatory or supplemental thereto.

“**Additional Security**” means a letter of credit, line of credit, insurance policy, surety bond, standby purchase agreement or similar obligation or instrument or any combination of the foregoing.

“**Authority**” means the Erie County Water Authority, a body corporate and politic constituting a public benefit corporation, created pursuant to Chapter 845 of the Laws of New York, 1949 and duly continued and existing under the Act.

“**Authorized Officer**” when used with reference to the Authority means the Chairman, the Vice-Chairman, the Treasurer or the Secretary thereof or other officer designated by resolution of the Authority.

“**Available Revenues**” means all Revenues.

“**Beneficial Owner**” means, so long as the Series 2018 Bonds are exclusively in book-entry form, the owner of a beneficial interest in any Series 2018 Bond through a Participant in DTC.

“**Bond Account**” means the Bond Account created in the Resolution and to be held and administered by the Trustee.

“**Bondholder**” or “**holder of a Bond**” means the registered owner of any Bond which at the time shall be registered other than to bearer, or such holder’s duly authorized attorney in fact, representative or assigns.

“**Bonds**” means the bonds issued from time to time by the Authority under and pursuant to the Resolution.

“**Capital Appreciation Bonds**” means Bonds, the payment of interest on which shall only be made (i) at maturity, (ii) at a specified time or times prior to maturity or upon earlier redemption, by Sinking Fund Installment or otherwise, (iii) at a specified time or times and thereafter on each interest payment date until maturity, or (iv) on each interest payment date until a specified time and thereafter at a specified time or times prior to maturity or upon earlier redemption, by Sinking Fund Installment or otherwise.

“**Certified Interest Rate**” means the rate of interest as certified pursuant to the Resolution which a Series of Variable Rate Bonds would have borne had such Variable Rate Bonds been issued at a fixed interest rate to their stated maturity.

“**Change of Control**” means, after the date of the Resolution, the passage by either house of the New York State legislature of any bill which upon passage would authorize, or the enactment of any local law which authorizes, the occurrence of the events specified in either clause (A) or clause (B) below: (A) the transfer to any entity, public or private, of (i) any of the statutory powers, duties or functions of the Authority, (ii) all or any significant portion of the properties or assets of the Authority or (iii) any moneys or securities of the Authority, or (B) any increase in the number of the members of the Authority.

“**Code**” means the Internal Revenue Code of 1986, as amended and supplemented from time to time, and the applicable temporary, proposed or final regulations promulgated thereunder by the United States Treasury Department.

“Cost of Acquisition and Construction” means all costs of determining the feasibility of, and acquiring, constructing, financing, carrying out and operating the Water Works System and any additions, improvements, enlargements, extensions, expansions and betterments to the Water Works System, and shall include, but not be limited to, moneys required for:

(i) working capital and reserves in such amounts as may be deemed necessary by the Authority;

(ii) interest accruing in whole or in part on Bonds after the date such Bonds are issued, but only if, and to such extent as, the Authority may reasonably determine;

(iii) deposits from the proceeds of Bonds in any account or subaccount established pursuant to the Resolution to meet requirements for Bonds;

(iv) deposits from the proceeds of Bonds in any accounts or subaccounts established pursuant to the Resolution as reserve for renewals, repairs, replacements, modifications, betterments, additions and contingencies;

(v) preliminary survey, investigation and development costs, engineering fees, contractors’ fees, costs of permits, licenses and approvals, labor, materials, equipment, lands, rights of way, franchises, payments to other public agencies, training and testing costs, insurance premiums, principal of and interest on notes issued in anticipation of Bonds, fees and expenses of trustees and paying agents, legal and financing costs, administrative and general costs, and all other costs incurred by the Authority and properly allocable to the Water Works System; and

(vi) the cost of any Additional Security and any fees and expenses in connection therewith;

(vii) costs associated with any injury or damage claims; and

(viii) all items of expense directly or indirectly related to the authorization, issuance, offering and sale of Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees 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, or any other cost, charge or fee in connection with the original issuance of Bonds.

“Debt Service” means, as of any particular date of computation, with respect to any Series of Bonds and with respect to any period, the sum of (i) interest accruing during such period on such Series of Bonds (to the extent not capitalized) and (ii) that portion of each installment of principal for such Series of Bonds deemed to accrue daily in equal amounts from a date one year (or such lesser period as shall be appropriate if such installments of principal for such Series of Bonds shall become due more frequently than annually) prior to its due date, or from the date of issuance of such Series of Bonds, whichever is later, except that, if any Refundable Principal Installment of such Series of Bonds is included in Debt Service for such period, Debt Service shall be determined as if such Refundable Principal Installment had been payable over a period extending 40 years from the date of issuance of such Refundable Principal Installment and as if such Refundable Principal Installment bears interest at the greater of (A) the rate or rates which were assumed by the Authority in the Authority’s budget for the Fiscal Year during which such calculation is made to be borne by such Refundable Principal Installment during such Fiscal Year or (B) the actual rate or rates borne by such Refundable Principal Installment on such date of calculation. Such interest and installments of principal shall be calculated on the assumption that no Bonds Outstanding at the date of such calculation will cease to be Outstanding except by reason of the payment of each installment of principal for such Series of Bonds on its due date and such calculation shall include interest and installments of principal on Parity Reimbursement Obligations.

“Fiscal Year” means the period established by the Authority or provided by law from time to time as its fiscal year, and which, as of the date hereof, is the twelve-month period commencing on January 1 of any year and ending on December 31 of such year.

“General Account” means the General Account, if any, created in the Resolution and to be held and administered by the Authority.

“Investment Securities” means any of the following, if and to the extent that the same are legal for the investment of funds of the Authority and are otherwise consistent with the Authority’s investment guidelines:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) 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;

(iii) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

(iv) direct obligations of, or obligations guaranteed as to principal and interest by, any 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 at least two nationally recognized bond rating agencies;

(v) bank time deposits evidenced by certificates of deposit and bankers’ acceptances issued by any bank or trust company (which may include the Trustee) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers’ acceptances (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i), (ii) or (iii) of this definition of Investment Securities, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured);

(vi) repurchase agreements with any bank or trust company (which may include the Trustee) which is a member of the Federal Deposit Insurance Corporation, which agreements are secured by securities which are obligations described in items (i), (ii) or (iii) of this definition of Investment Securities provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Trustee or the Authority of legal title to, or the grant to the Trustee or the Authority of a prior perfected security interest in, identified securities referred to in items (i), (ii) or (iii) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Trustee or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vii) obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies;

(viii) certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United States of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Trustee under the Resolution, and provided further that, in the case of certificates or other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be

fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's and Standard & Poor's, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's and Standard & Poor's;

(ix) investment agreements rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's or Standard & Poor's such investment agreements or the long term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements; and

(x) such other investments with respect to any Series of Bonds as are specified in the Supplemental Resolution pursuant to which such Series of Bonds was issued.

The Series 2018 Resolution defines "**Investment Securities**" to include, for purposes of the Series 2018 Bonds, the following:

(a) Bonds, notes or other evidences of indebtedness rated "AA+" by Standard & Poor's and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(b) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by Standard & Poor's and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; and

(c) Investments in money market funds rated "AAAm" or "AAAm-G" or better by Standard & Poor's.

"**Moody's**" means Moody's Investors Service, Inc.

"**Net Revenues**" mean, with respect to any period, the Revenues during such period less the Operation and Maintenance Expenses during such period.

"**Operation and Maintenance Account**" means the Operation and Maintenance Account created pursuant to the Resolution to be held and administered by the Authority.

"**Operation and Maintenance Expenses**" means the costs and expenses of operating and maintaining the Water Works System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Authority relating to the Water Works System according to generally accepted accounting principles, exclusive of depreciation and amortization of property values or losses; (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Authority's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others, (iii) administrative expenses, insurance premiums, legal and engineering expenses, payments to pension, retirement, group life insurance, health and hospitalization funds or other employee benefit funds, refunds or customers' deposits and interest on customers' deposits; (iv) any other expenses required to be paid by the Authority under the provisions of the Resolution or by law or permitted by standard practices for public utility systems similar to the property and business of the Authority and applicable in the circumstances; and (v) the expenses, liabilities and compensation of the Trustee, Registrar and Paying Agent required to be paid under the Resolution.

"**Outstanding**" when used with reference to Bonds means, as of any date, Bonds theretofore or thereupon issued or authorized pursuant to the Resolution, except: (a) any Bonds canceled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; and (c) Bonds deemed to be no longer outstanding as provided in the Resolution.

“Parity Reimbursement Obligation” means the obligations of the Authority to reimburse the issuer of an Additional Security for amounts paid by such issuer thereunder, which obligation is secured by a pledge of, and lien on, Available Revenues on a parity with the lien created by the Resolution.

“Paying Agent” means the bank or trust company appointed as Paying Agent pursuant to the Resolution, and its successor or successors, and any other bank or trust company which may at any time be substituted in its place pursuant to the Resolution.

“Rate Consultant” shall mean the one or more engineers or engineering firms, accounting firms, investment bankers or corporations retained by or on behalf of the Authority to perform the acts and carry out the duties provided for such Rate Consultants in the Resolution.

“Rebate Account” means the Rebate Account created in the Resolution and to be held and administered by the Trustee.

“Refundable Principal Installment” means any principal installment for any Series of Bonds which the Authority intends to pay with moneys that are not Revenues, provided that such intent shall have been expressed in the Supplemental Resolution authorizing the issuance of such Series of Bonds and provided further, however, that such principal installment shall be a Refundable Principal Installment only until such time as the Authority no longer intends to pay such principal installment with moneys which are not Revenues.

“Registrar” means the Registrar appointed pursuant to the Resolution, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“Reserve Account Requirement” means, with respect to a Series of Bonds, the amount, if any, prescribed by the Supplemental Resolution authorizing such Series of Bonds.

“Resolution” or **“General Resolution”** means the resolution adopted by the Authority on July 9, 1992 entitled “FOURTH GENERAL WATER REVENUE BOND RESOLUTION,” as amended and supplemented, including but not limited to, by the Supplemental Resolution dated August 30, 2016 and a resolution supplemental thereto entitled “Series 2018 Supplemental Resolution Authorizing the Issuance of Water Revenue Bonds, Series 2018” adopted by the Authority on June 14, 2018 (the “Series 2018 Resolution”).

“Resolutions” means collectively the Resolution and the Series 2018 Resolution.

“Revenue Bond Index” means the thirty (30) year Revenue Bond Index of The Bond Buyer, a publication in New York, New York, or any successor publication maintaining such index or in the event The Bond Buyer or any successor publication does not maintain such Index, an equivalent index with the same components as the Revenue Bond Index. In the event there is no Revenue Bond Index or equivalent index an interest rate for a Series of Bonds determined in accordance with the Revenue Bond Index shall be the maximum rate, if any, permitted by the Supplemental Resolution authorizing the issuance of such Series of Bonds, or if the Supplemental Resolution authorizing the issuance of such Series of Bonds does not specify a maximum rate, the Certified Interest Rate.

“Revenue Account” means the Revenue Account created in the Resolution to be held and administered by the Authority.

“Revenues” means and includes all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership or operation of the Water Works System, including, without limiting the generality of the foregoing, (i) all income, fees, charges, receipts, profits and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water Works System, and (ii) all income from investments of moneys held under the Resolution, including investment income on any Construction Account. “Revenues” shall not include deposits subject to refund until such deposits have become the property of the Authority; and income, fees, charges, receipts, profits or other moneys derived by the Authority from its ownership or operation of any separate utility system or any gifts, grants, donations or other moneys received by the Authority from any state or Federal agency or other person, if such gifts, grants, donations or other moneys

received by the Authority from any state or Federal agency or other person are the subject of any limitation or reservation (i) imposed by the donor grantor or (ii) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds in such a way as to preclude their inclusion in Revenue.

“**Serial Bonds**” means Bonds which are not Term Bonds.

“**Series of Bonds**” or “**Bonds of a Series**” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

“**Series 1998D Bonds**” means the outstanding Bonds of the Authority issued pursuant to the Resolution and the Supplemental Resolution adopted by the Authority on April 30, 1998, as amended July 9, 1998, authorizing the issuance of the Series 1998D Bonds.

“**Series 2003F Bonds**” means the outstanding Bonds of the Authority issued pursuant to the Resolution and the Supplemental Resolution adopted by the Authority on October 31, 2002, authorizing the issuance of the Series 2003F Bonds.

“**Series 2008 Bonds**” means the outstanding Bonds of the Authority issued pursuant to the Resolution and the Supplemental Resolution adopted by the Authority on June 5, 2008, authorizing the issuance of the Series 2008 Bonds.

“**Series 2016 Bonds**” means the outstanding Bonds of the Authority issued pursuant to the Resolution and the Series 2016 Resolution.

“**Series 2018 Bonds**” means the outstanding Bonds of the Authority issued pursuant to the Resolution and the Series 2018 Resolution.

“**Series 2018 Resolution**” means the Supplemental Resolution adopted by the Authority on June 28, 2018, entitled “SUPPLEMENTAL RESOLUTION AUTHORIZING THE ISSUANCE OF UP TO \$25,000,000 WATER REVENUE BONDS, SERIES 2018” authorizing the issuance of the Series 2018 Bonds.

“**Standard & Poor’s**” means Standard & Poor’s Rating Services, a Division of The McGraw-Hill Companies, Inc.

“**Supplemental Resolution**” means any resolution adopted by the Authority pursuant to and in compliance with the provisions of the Resolution providing for the issuance of Bonds, and any other resolution adopted by the Authority pursuant to and in compliance with the provisions of the Resolution amending or supplementing the provisions of the Resolution.

“**Term Bonds**” means Bonds the retirement or the redemption of which shall be provided for from moneys credited to the Bond Retirement Account in the Bond Account pursuant to the Resolution.

“**Trustee**” means the Trustee appointed pursuant to the Resolution, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“**Variable Rate Bonds**” mean any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time based on the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such Bonds from being ascertainable in advance.

“**Water Works System**” means the source of water supply and the water supply and distribution system of the Authority, including the plants, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights in land and water rights, rights-of-way, contract rights, franchises, approaches, connections, dams, reservoirs, water mains and pipe lines, utility installations, pumping stations and equipment, and any other property, real, personal or mixed, incidental to and included in such source of supply and such system or parts thereof,

including any proprietary software programs or databases belonging to the Authority which are utilized in the operation and management of such source of supply and such system, and any improvements, extensions and betterments, now or hereafter constructed, acquired or made by the Authority.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE SERIES 2018 RESOLUTION

The following is a brief outline of certain provisions contained in the General Resolution and the Series 2018 Resolution and is not to be considered as a full statement thereof. This summary is qualified by reference to and is subject to the General Resolution and the Series 2018 Resolution, copies of which are available for examination at the principal offices of the Authority and the Trustee. To the extent that certain provisions of the General Resolution are modified or superseded by the provisions of the Series 2018 Resolution, the Series 2018 Bonds, and the rights of the holders thereof, are governed by the Series 2018 Resolution.

Authorization of Bonds

The General Resolution authorizes the issuance and provides the security for certain bonds of the Authority, to be known and entitled as “Fourth Resolution Water Revenue Bonds”. The Bonds may be issued from time to time in series, pursuant and subject to the terms, conditions and limitations of the General Resolution, in such amounts as may be determined by the Authority, for the payment of all or a portion of the Cost of Acquisition and Construction of the Water Works System or for refunding any bond or bonds of the Authority. The principal amount of Bonds which may be issued and secured by the General Resolution shall not be limited, except as may be provided by law.

General Provisions for Issuance of Bonds

The Bonds of each series shall be issued by means of a Supplemental Resolution adopted by the Authority in accordance with the provisions of the General Resolution. Such Supplemental Resolution shall designate the Bonds by an appropriate Series designation, in addition to the title “Fourth Resolution Water Revenue Bonds” or any other appropriate title specified in the Supplemental Resolution, and shall specify such additional terms and provisions as set forth in the General Resolution.

Conditions for the Issuance of Bonds Other Than Refunding Bonds

One or more Series of Bonds (exclusive of Refunding Bonds) may be issued under the resolution at any time and from time to time for the payment of all or a portion of the Cost of Acquisition and Construction, but only upon compliance as to each such Series with the provisions of the General Resolution.

Refunding Bonds

The Authority may issue Refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of bonds outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and of effecting such refunding.

The proceeds of the Refunding Bonds of each Series issued shall be applied for the purposes of making deposits in such Accounts and Subaccounts under the Resolutions as shall be required by the provisions of the Supplemental Resolution authorizing the issuance of such Refunding Bonds.

Establishment of Accounts

The General Resolution establishes the following accounts, the existence of which shall continue so long as any Bonds issued pursuant to the Resolutions are outstanding:

- (1) Revenue Account, to be held by the Authority;

- (2) Operation and Maintenance Account, to be held by the Authority;
- (3) Bond Account, to be held by the Trustee; and
- (4) Construction Account, to be held by the Trustee.

Available Revenues

The Authority shall pay or cause to be paid into the Revenue Account, as promptly as practicable after receipt thereof, all of the Available Revenues and all other moneys required to be paid into the Revenue Account pursuant to the General Resolution (other than the Revenues and other amounts expressly required or permitted by the General Resolution to be credited to, or deposited in, any other account or subaccount). The Revenue Account and all moneys on deposit therein shall be used and applied, except as otherwise expressly permitted by the General Resolution, only in the manner and for the purposes provided in the General Resolution.

Moneys in the Revenue Account shall be applied in the following order of priority:

- (1) the amounts required to pay Operation and Maintenance Expenses shall be transferred to the Operation and Maintenance Account;
- (2) the amounts required to be deposited to the Bond Account shall be transferred into the various subaccounts within the Bond Account as more fully set forth in the General Resolution; and
- (3) the balance remaining in the Revenue Account at the end of each month, after making the transfers and allocations set forth above, shall be retained in the Revenue Account.

Operation and Maintenance Account

All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operation and Maintenance Account as the same become due and payable after transfers from the Revenue Account and prior to any payment to other accounts and subaccounts set forth in the General Resolution.

Bond Account

The Bond Account and the moneys deposited in such Account shall, except as otherwise provided, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Bonds, and of retiring the Bonds prior to maturity. Each month the Authority shall transfer from the Revenue Account after making the transfers hereinabove provided for to the Operation and Maintenance Account, to the Trustee for deposit into the Bond Account, amounts as follows and in the following order of priority:

(i) The Trustee shall create a separate subaccount in the Bond Account to be known as the "Interest Account". In order to provide for payment of the interest on the Bonds, not later than the twenty-fifth day of the sixth month prior to the date upon which an installment of interest falls due on the Bonds of a Series, or if the first installment of interest on the Bonds of such Series shall fall due in less than six months, then on the twenty-fifth day of the month immediately succeeding the month in which the Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Trustee, and the Trustee shall credit to the Interest Account, an amount such that, if the same amount were so credited to the Interest Account on the twenty-fifth day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Bonds of such Series, the aggregate of the amounts so credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds of such Series.

(ii) The Trustee shall create a separate subaccount in the Bond Account to be known as the "Principal Account". In order to provide for the payment of the principal of Serial Bonds, not later than the

twenty-fifth day of the twelfth month prior to the date upon which an installment of principal of Serial Bonds of each Series falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth day of the month immediately succeeding the month in which the Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Trustee, and the Trustee shall credit to the Principal Account, an amount such that, if the same amount were so credited to the Principal Account on the twenty-fifth day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series, the aggregate of the amounts so credited to the Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series.

(iii) The Trustee shall create a separate subaccount in the Bond Account to be known as the “Bond Retirement Account” in order to meet the specified Sinking Fund Installment requirements of Term Bonds and otherwise to retire Bonds prior to maturity. Not later than the twenty-fifth day of the twelfth month prior to the date upon which a Sinking Fund Installment of Term Bonds of each Series falls due, or if the first Sinking Fund Installment of the Term Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth day of the month immediately succeeding the month in which the Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Trustee, and the Trustee shall credit to the Bond Retirement Account an amount such that, if the same amount were so credited to the Bond Retirement Account on the twenty-fifth day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series, the aggregate of the amounts so credited to the Bond Retirement Account for the purpose of retiring the Term Bonds of such Series would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series.

(iv) Moneys on deposit in the Bond Account shall be transmitted by the Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Bonds (either at the maturity date thereof or redemption date prior to maturity) to pay, and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Bonds, then due. In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account one business day before any interest, principal or sinking fund payment is due on a Series of Bonds, the Trustee shall promptly make up such deficiency from the Reserve Account, if any, for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interest therein) in which moneys in the Interest Account, Principal Account or Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Reserve Account for such Series.

Construction Account

The Supplemental Resolution providing for the issuance of any Series of Bonds (exclusive of refunding Bonds) may create and establish (unless theretofore created and established with respect to such purpose) a separate special trust account to be known as the “Construction Account, _____”, or such other designations as may be appropriate (the blank to be completed with the year in which the Account is created). The Construction Account shall be held in trust by the Authority, for the benefit of the holders of the Bonds, as their interests may appear, pending application thereof in accordance with the terms of the General Resolution and each appropriate Supplemental Resolution. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds or any other Series of Bonds, there shall be created in the Construction Account a special subaccount to be known as the “Construction Interest Account”, or such other designation as may be appropriate.

(i) From the proceeds derived from the sale of such Bonds there shall be deposited:

(1) with the Authority for credit to the Construction Interest Account, if any, otherwise with the Trustee for deposit in the Bond Account for credit to the Interest Account, an amount equal to the accrued interest on the Bonds paid as part of the purchase price;

(2) with the Authority for credit to such Construction Interest Account, if any, otherwise with the Trustee for deposit in the Bond Account for credit to the Interest Account, the amount, if any, equal to the interest on the Bonds being capitalized from proceeds thereof;

(3) with the Trustee for payment into the Bond Account for credit to the applicable Reserve Account the amount prescribed in the applicable Supplemental Resolution;

(4) with the Authority for credit to the applicable Construction Account the balance of the Bond proceeds which shall be applied to the payment of the cost as shall be specified in the applicable Supplemental Resolution. Any balance remaining in such Construction Account upon completion of payment of such costs shall be used for any lawful purpose of the Authority, provided that the Authority shall have obtained a written opinion of nationally recognized bond counsel acceptable to the Trustee that such application will not impair the exemption from Federal income taxation of interest on any of the Bonds.

(ii) Moneys credited to the Construction Interest Account shall be used for the purpose of paying interest on the Bonds. On or before the twenty-fifth day of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to the Construction Interest Account, the Authority shall transfer from the Construction Interest Account to the Trustee for deposit in the Bond Account for credit to the Interest Account an amount which, together with any moneys theretofore received or held by the Trustee for that purpose, shall be sufficient to pay such next maturity installment of interest.

Payments from Construction Account

Payments from the respective Construction Accounts shall be as specified in the Supplemental Resolution authorizing the issuance of a Series of Bonds.

Lien on Moneys in the Construction Account

Amounts on deposit in any Construction Account, pending their application as provided in the General Resolution and Supplemental Resolution, shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided.

Investment of Funds

Moneys in the Interest Account, Principal Account and Bond Retirement Account in the Bond Account shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee (at the direction of the Authority) solely in, and obligations credited to such Accounts shall be, Investment Securities which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in such accounts will be required for the purposes intended. Moneys in the Reserve Account in the Bond Account not required for immediate disbursement for the purpose for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee at the direction of the Authority solely in, and obligations credited to said Reserve Account shall be, Investment Securities which shall mature or be subject to redemption at the option of the holder thereof on or prior to the maturity date of the applicable Series of Bonds. The Trustee shall not be liable for any depreciation in value of any such investments.

Moneys in the Revenue Account and in the Construction Account, including a Construction Interest Account therein, not required for immediate disbursement for the purposes for which such Accounts are created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee (at the direction of the Authority) for such Accounts, to the extent allowed by law, solely in, and obligations deposited in such Accounts

shall be, Investment Securities which shall mature or be subject to redemption at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Accounts.

To the extent permitted in the General Resolution, all income received from the investment or reinvestment of moneys in the Accounts established under the General Resolution shall be deposited in the respective Accounts from which such investments are made to the extent of any deficiencies therein and otherwise to the Revenue Account; provided, however, that at the direction of the Authority, all or a portion of the income received from the investment or reinvestment of moneys in any such Account may be deposited in the Construction Account, including the Construction Interest Account therein. All income received from the investment or reinvestment of moneys in a Construction Account shall be deposited in said Account.

Nothing in the General Resolution prevents any Investment Securities acquired as investments of funds held under the General Resolution from being issued or held in book-entry form.

Particular Covenants

The Authority has covenanted and agreed with the purchasers and holders of all Bonds issued pursuant to the General Resolution as follows:

Maintenance of the Properties of the Water Works System

The Authority shall (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water Works System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof, in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and (iii) comply, or cause to be complied, with the terms and conditions of any permit or license for the Water Works Systems or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Water Works System or requiring a license, permit or approval therefor.

Rates and Charges

The Authority shall fix reasonable rates for each class of service rendered by the Water Works System.

So long as any Bonds are Outstanding, the Authority shall at all times maintain rates, fees, rentals, and other charges sufficient to pay, and any contracts entered into by the Authority for the sale or distribution of water shall contain rates, fees, rentals, or other charges sufficient to pay, the cost of operation and maintenance of the Water Works System, the principal of and interest on the Bonds as the same severally become due and payable, and to maintain any reserve or other funds required by the terms of the General Resolution. The Authority shall not reduce any such rates, fees, rentals, and other charges unless on the effective date of such reduction a Rate Consultant shall have recommended such reduction in writing and a copy of such recommendation shall have been filed with the Trustee.

So long as any Bonds are Outstanding, the Authority shall at all times maintain rates, fees, rentals and other charges with respect to the Water Works System as shall be required in order that in each Fiscal Year the Net Revenues shall equal at least 1.10 times the sum of the Debt Service on the Bonds for such Fiscal Year computed as of the beginning of such Fiscal Year, and, in any event, as shall be required to pay or discharge all other indebtedness, charges and liens whatsoever payable out of the Available Revenues.

The Authority shall at all times keep on file with the Trustee copies of its rate schedules for the Water Works System, as in effect from time to time.

For purposes of determining rates and charges, Debt Service on any Variable Rate Bonds shall be calculated using the greater of (i) the Certified Interest Rate or (ii) the interest rate which the Authority estimates Variable Rate Bonds will bear during the Fiscal Year for which such calculation is made.

Sale, Lease or Other Disposition of Properties of the Water Works System

The Authority shall not sell, mortgage, lease or otherwise dispose of the properties of the Water Works System except as follows:

(1) The Authority may sell, lease or otherwise dispose of the properties comprising the Water Works System if (i) such sale, lease or disposition is in the ordinary course of the Authority's business or (ii) simultaneously with such sale or other disposition thereof provision is made for the payment of (x) all Bonds then outstanding and such Bonds are no longer deemed outstanding within the meaning of the General Resolution.

(2) The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water Works System having a value of \$1,000,000 or less on such terms and conditions as may be prescribed by the Authority. The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water Works System having a value in excess of \$1,000,000 if a Rate Consultant shall certify to the Authority in writing that such terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Available Revenues to be derived from the remaining properties of the Water Works System, after taking into consideration the use by the Authority of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the Authority to comply with all covenants and conditions of the General Resolution. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water Works System pursuant to this paragraph shall be paid (i) if such proceeds are not in excess of \$100,000, into the Revenue Account, or (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Account and applied to the purchase of redemption of Bonds, or (B) into the Revenue Account and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water Works System, as the Authority shall determine.

(3) The Authority may sell, lease or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Water Works System and real and personal property comprising a part thereof, which, in the opinion of the Authority, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water Works System, or no longer necessary, material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water Works System pursuant to this paragraph shall be paid into the Revenue Account.

(4) In the event that any part of the properties comprising the Water Works System shall be transferred from the Authority through the operation of law (including condemnation), any moneys received by the Authority as a result thereof shall be paid (i) if such proceeds are not in excess of \$100,000 into the Revenue Account, or (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Account and applied to the purchase or redemption of Bonds, or (B) into the Revenue Account and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water Works System, as the Authority shall determine.

APPENDIX D
INFORMATION REGARDING THE COUNTY

The following information was provided by Erie County, New York, and the Authority does not guaranty its accuracy.

General Information

The County is a municipal corporation of the State. With a 2010 population of 919,040 according to the U.S. Census Bureau, it is one of the State’s most populous counties. It has a land area of 1,058 square miles and is situated in Western New York, bounded on the west by Lake Erie and Canada, to the north by Niagara County, to the east by Genesee County and Wyoming County, and to the south by Cattaraugus and Chautauqua Counties. The County includes the State’s second largest city by population, Buffalo, as well as the cities of Lackawanna and Tonawanda and 25 towns. The County has numerous established residential areas, and its largest taxpayers include National Fuel Gas Corporation, National Grid, Verizon New York and Benderson Development Co., Inc. The County includes major urbanized and industrial areas, as well as farmlands.

The County provides a variety of general governmental services, which supplement local city, town and village services. These include parks, cultural and recreational facilities, police, libraries, youth and senior citizen services, and correctional facilities. The County is responsible for providing mandated social service programs. The County also owns and operates a community college. It provides sanitary sewage collection, treatment and disposal facilities through a variety of special assessment districts.

Located within the County are three cities and 25 towns, including the City of Buffalo, the second largest city in the State, which serves as the County seat. The 2000 and 2010 population estimates of the cities and five largest towns are as follows:

<u>Municipality</u>	<u>2000 Population</u>	<u>2010 Population</u>
Buffalo, City	292,648	261,310
Lackawanna, City	19,064	18,141
Tonawanda, City	16,136	15,130
Amherst, Town	116,510	122,366
Cheektowaga, Town	94,019	88,226
Tonawanda, Town	78,155	73,567
Hamburg, Town	56,259	56,936
West Seneca, Town	45,920	44,711

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

Population Characteristics

**TABLE 1
Population (in 000s)**

<u>Year</u>	<u>Erie County</u>	<u>City of Buffalo</u>	<u>New York State</u>	<u>United States</u>
1970	1,114	463	18,237	203,212
1980	1,015	357	17,558	227,700
1990	969	328	18,000	248,200
2000	950	293	18,976	281,422
2010	919	261	19,378	308,746

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

Economy

The County is a major New York industrial and commercial center. The following tables illustrate the major components of the County’s employment.

**TABLE 2
Percent of Non-Farm Employment
by Industry (NAICS) as of 2016 (Annual Average)**

<u>Industry</u>	<u>Buffalo- Niagara Falls MSA (a)</u>	<u>New York State</u>
Goods Producing		
Natural Resources, Mining & Construction	3.8%	4.0%
Manufacturing	9.3%	4.8%
Service Providing		
Transportation, Warehousing & Utilities.....	18.4%	16.8%
Information	1.3%	2.8%
Finance Activities	6.2%	7.6%
Professional & Business Services.....	12.8%	13.8%
Educational & Health Services	17.0%	20.8%
Leisure & Hospitality	10.7%	9.7%
Other Services	4.4%	4.3%
Government	16.1%	15.4%

^(a) Metropolitan Statistical Area Summary

SOURCE: New York State Department of Labor, Labor Market Information

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TABLE 3
 Total Labor Force and Employment 1996 – 2016
 (in 000s)

Year	Erie County		New York State	
	Total Labor Force	Employed	Total Labor Force	Employed
1996	468.8	446.1	8,785.7	8,237.1
1997	476.4	452.5	9,012.2	8,432.6
1998	473.1	449.0	9,071.8	8,562.2
1999	467.8	443.8	9,126.6	8,654.6
2000	465.6	445.9	9,133.9	8,718.7
2001	460.2	438.8	9,151.7	8,709.9
2002	470.1	444.9	9,275.5	8,705.4
2003	470.1	443.3	9,263.4	8,672.9
2004	472.1	445.2	9,356.0	8,812.6
2005	472.3	447.8	9,460.9	8,986.9
2006	471.1	448.1	9,508.1	9,077.5
2007	465.3	443.5	9,522.1	9,088.2
2008	473.5	446.5	9,664.8	9,139.1
2009	470.7	432.5	9,647.5	8,844.5
2010	465.7	427.0	9,595.4	8,769.7
2011	458.8	422.1	9,517.4	8,728.1
2012	461.8	423.4	9,612.2	8,793.4
2013	458.9	425.0	9,623.1	8,881.2
2014	450.7	423.4	9,570.7	8,965.4
2015	449.9	426.0	9,591.2	9,084.6
2016	446.6	424.8	9,584.5	9,121.3

Note: Annual averages not seasonally adjusted. Reflects employment of all employed persons in all occupations.
 SOURCE: New York State Department of Labor, Labor Market Information

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TABLE 4
Annual Average Unemployment Rates 1996-2016(a)

<u>Year</u>	<u>Erie County</u>	<u>NYS</u>	<u>United States</u>
1996	4.80%	6.20%	5.40%
1997	5.00%	6.40%	4.90%
1998	5.10%	5.60%	4.50%
1999	5.10%	5.20%	4.20%
2000	4.20%	4.50%	4.00%
2001	4.70%	4.80%	4.70%
2002	5.40%	6.10%	5.80%
2003	5.70%	6.40%	6.00%
2004	5.70%	5.80%	5.50%
2005	5.20%	5.00%	5.10%
2006	4.90%	4.50%	4.60%
2007	4.70%	4.60%	4.60%
2008	5.70%	5.40%	5.80%
2009	8.10%	8.30%	9.30%
2010	8.30%	8.60%	9.60%
2011	8.00%	8.30%	9.00%
2012	8.30%	8.50%	8.10%
2013	7.40%	7.70%	7.40%
2014	6.10%	6.30%	6.20%
2015	5.30%	5.30%	5.30%
2016	4.90%	4.80%	4.90%

(a) Percent of total force unemployed, by place of residence, not seasonally adjusted.
 SOURCES: U.S. Rate - U.S. Department of Labor, Bureau of Labor Statistics
 Other Rates - New York State Department of Labor, Labor Market Information

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TABLE 5
Trends in Non-Farm Employment by Industry (NAICS)
2007 – 2016 (in 000s)
Buffalo-Niagara Falls MSA

Industry	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Goods Producing:										
Natural Resources, Mining & Construction	20.0	20.7	19.3	18.9	19.9	19.6	19.3	20.2	20.8	21.5
Manufacturing	59.9	57.5	50.7	49.6	51.0	51.3	51.4	52.2	52.2	52.1
Service Providing:										
Trade, Transportation & Utilities	103.6	103.0	98.2	97.8	99.1	100.4	100.5	102.3	103.4	102.9
Information	8.5	8.5	8.3	7.8	7.6	7.6	7.6	7.6	7.3	7.1
Finance Activities	33.4	32.8	31.3	30.5	31.4	32.0	32.1	32.7	33.8	35.0
Professional & Business Services	70.0	72.6	70.8	71.6	72.5	73.1	73.4	71.8	71.9	71.8
Educational & Health Services	83.8	85.8	87.5	89.2	89.6	90.4	92.1	93.1	93.7	95.6
Leisure & Hospitality	49.1	50.2	50.8	52.5	53.6	55.0	56.9	57.7	58.7	60.3
Other Services	23.3	23.9	23.8	23.4	23.2	23.4	24.1	24.6	24.8	24.8
Government:										
Federal Government	9.9	10.1	10.2	10.5	9.9	9.7	9.4	9.1	9.1	9.2
State Government	22.2	22.1	22.4	22.8	23.0	22.9	22.8	22.3	22.4	22.7
Local Government	62.2	63.2	63.1	61.7	60.6	59.0	58.0	57.6	57.7	58.2
Total Non-Farm Employment (a) (b)	545.7	550.2	536.2	536.2	541.4	544.5	547.5	551.2	555.8	561.3

(a) Totals may not add due to rounding.

(b) Total non-farm employment data is compiled by the State Department of Labor upon consultation with employers.

SOURCE: New York State Department of Labor, Labor Market Information

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The following is a list of the ten largest property taxpayers:

**TABLE 6
Ten Largest Taxpayers
(As of December 31, 2016)**

	<u>Equalized Full Valuation</u>	<u>% of Equalized Full Valuation</u>
National Grid / Niagara Mohawk.....	\$751,943,329	
National Fuel Gas Corporation	734,358,594	
Benderson Development Company, Inc.	594,513,263	
Pyramid Company of Buffalo	274,718,686	
NY State Electric and Gas Corporation	263,939,668	
Verizon New York, Inc.....	215,623,449	
Norfolk/Conrail/CSX.....	153,125,778	
Uniland Development	147,911,719	
Ellicott Group LLC	145,620,628	
MJ Peterson Real Estate.....	<u>118,809,124</u>	
TOTAL	<u>\$3,400,564,238</u>	

SOURCE: Erie County Division of Real Property Tax Services

**TABLE 7
Ten Largest Employers
(As of December 31, 2016)**

<u>Employer</u>	<u>Type of Activity</u>	<u>Number of Full Time Employees</u>
State of New York	Government	23,350
U.S. Government	Government	10,000
Kaleida Health	Health Care	10,000
Catholic Health System	Health Care	7,918
M & T Bank	Commercial Bank	7,500
Employee Services Corp	Human Resources Outsourcing	7,488
University of Buffalo	Education	6,992
County of Erie	Government	5,039
City of Buffalo	Government	5,950
Seneca Gaming Corp	Casino	4,000

SOURCE: Erie County Employment-Erie County Comptroller's Office, All Other Business First –Book of Lists (Employees in Western New York)

County Employee Pension Benefits

All employees of the County eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York are members of the State and Local Employees' Retirement System ("ERS"). ERS is a cost-sharing multiple public employer retirement system. The obligation of employers and employees to contribute and the benefits to employees are governed by the State Retirement and Social Security Law (the "Retirement System Law"). ERS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit

payments. All benefits generally vest after five years of credited service for members of Tier I through IV and ten years of credited service for members of Tiers V and Tier VI. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in ERS. ERS is non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 and before January 1, 2010 must contribute 3% of their gross annual salary toward the costs of retirement programs. The 3% contribution is waived when the employee completes ten (10) years of service. Members hired on or after January 1, 2010 and before April 1, 2012 are members of Tier V. Tier V members are required to contribute 3% of their salaries toward pension costs as long as they accumulate additional pension credits. Members hired after April 1, 2012 are members of Tier VI. Tier VI members are required to contribute from 3% to 6% of their salaries based on a sliding scale toward pension costs as long as they accumulate additional pension credits.

The required ERS contributions for the last three fiscal years are as follows:

<u>Year</u>	Governmental Activities ERS	Business-type Activities ERS
2016	\$35,017,000	\$3,764,000
2015	38,032,000	4,038,000
2014	41,957,000	4,131,000

SOURCE: County

Other Post-Employment Benefits

In applying the requirements of GASB Statement No. 45 (adopted during the year ended December 31, 2007), the County 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 County's future cash flows. Recognition of the liability accumulated from prior years is being phased in over 30 years, commencing with the 2007 liability.

For the fiscal year ended December 31, 2016, the County's annual other post-employment benefits ("OPEB") cost (expense) of \$91,483,498 is equal to the Annual Required Contribution ("ARC"), which is \$98,734,706 minus certain adjustments which totaled \$7,251,208. Those adjustments were: interest on the net OPEB obligation, adjustment to the ARC and other adjustments for certain data related to the actuarial assessment at January 1, 2010, which were amortized over one year. Considering the annual expense as well as payments for current health insurance premiums, which totaled \$38,370,586 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of \$53,112,912 for the year ended December 31, 2016.

The OPEB plan was unfunded, resulting in an unfunded accrued liability ("UAAL") of \$977,855,450 for governmental activities and \$163,669,707 for business-type activities as of the most recent actuarial valuation date of January 1, 2016.

Annual OPEB Cost and Net OPEB Obligation (in 000's)

	Governmental Activities	Business-type Activities	Primary Government Total
Actuarial Accrued Liability (AAL)	\$977,855	\$163,670	\$1,141,525
Unfunded actuarial accrued liability (UAAL)	977,855	163,670	1,141,525
Normal cost at beginning of year	29,320	6,457	35,777
Amortization factor based on 30 years	17.40	17.40	17.40
Annual covered payroll	204,706	62,489	267,195
UAAL as a percentage of covered payroll	477.69%	261.92%	427.23%

**Level Dollar Amortization
Calculation of ARC under Projected Unit Credit Method
(in 000's)**

	Governmental <u>Activities</u>	Business-type <u>Activities*</u>	Primary Government <u>Total</u>
ARC normal cost with interest to end of year (UAAL) over 30 years with interest at end of year	\$29,320	\$6,457	\$35,777
Annual Required Contribution (ARC)	<u>54,043</u>	<u>8,915</u>	<u>62,958</u>
Interest on net OPEB obligation	83,363	15,372	98,735
Adjustment to ARC	15,573	2,817	18,390
Annual OPEB cost (expense)	<u>(21,713)</u>	<u>(3,928)</u>	<u>(25,641)</u>
Contribution for fiscal year ended December 31, 2016	77,223	14,261	91,484
Increase in net OPEB obligation	<u>(32,132)</u>	<u>(6,239)</u>	<u>(38,371)</u>
Net OPEB obligation December 31, 2015	45,091	8,022	53,113
Net OPEB obligation December 31, 2016	<u>362,162</u>	<u>65,514</u>	<u>427,676</u>
Percent of annual OPEB cost contributed	<u>\$407,253</u>	<u>\$73,536</u>	<u>\$480,789</u>
	41.61%	43.75%	41.94%

(*) Erie Community College (August 31, 2016)

Transportation

The existing transportation network in Erie County provides for all modes of travel. The unique geographic location, which includes four highway and two rail entry points into Canada from Erie and Niagara Counties, has afforded strategic transportation advantages and it is the primary reason that Erie County continues to serve as a transportation hub for the region.

Railroad infrastructure in Erie County is extensive and includes passenger rail service provided by Amtrak (along the CSX rail corridor), commuter rail service within the City of Buffalo, four of the seven national Class I railroads, CSX and Norfolk Southern, Canadian National and Canadian Pacific, several short line railroads providing easy freight and passenger access to United States and Canadian markets. It is one of the largest rail centers in the United States and one of the few centers with international connections. Rail transportation continues to be one of the County's largest industries employing more than 2,100 persons with payrolls totaling approximately \$10 million a month.

The Buffalo-Niagara International Airport, located in Cheektowaga, offers commercial passenger service through eight major and nine regional/commuter airlines. In addition, the airport serves as a major distribution center for air cargo traffic through four major operators. The County also has three general aviation airports that serve smaller general aviation aircraft.

In addition to rail and air service, the County has a large trucking industry with 10 transcontinental carriers, 23 international carriers, two transcontinental heavy equipment haulers, and numerous common carriers. Of the four highway international crossings in the region, only the Peace Bridge is located in the County. However, the Peace Bridge is by far the busiest with approximately 6 million crossings annually.

The Niagara River, Lake Erie and Lake Ontario serve as the western boundary of the State. The Port of Buffalo provides an outlet to the Great Lakes System and Atlantic Ocean via the St. Lawrence Seaway. In recent years there has been a major push to redevelop Buffalo's waterfront, with restoration of the original commercial slip along with other recreational and employment projects.

Educational, Cultural, Media and Recreational Facilities

There are eight colleges and universities, four community and junior colleges, and various vocational and technical schools located in the County. Erie Community College consists of three campuses: Williamsville, downtown Buffalo, and Orchard Park, with more than 11,000 students enrolled.

The State University of New York at Buffalo is the largest and most comprehensive component of the State University system. In 2014, more than 29,944 students were enrolled in its undergraduate and graduate programs, and the University has approximately 6,788 full time equivalent employees.

A wide assortment of vocational and other specialized educational programs offered in the County are administered through a Board of Cooperative Educational Services (“BOCES”), with financial aid provided by cooperating school districts.

An important contribution to the area’s educational facilities is the Buffalo and Erie County Public Library System. The Library System consists of a Central Library, eight branches in the City of Buffalo and twenty-two contracting member libraries, which operate twenty-eight facilities in the County, and house approximately 5,000,000 volumes. In addition, the Library System boasts a number of unique and valuable community assets including ownership of Mark Twain’s *The Adventures of Huckleberry Finn* manuscript and a complete collection of John James Audubon’s *The Birds of America*, as well as the valuable resources contained in the Mark Twain Room and the Grosvenor Rare Book Room.

The County has 13 hospitals with over 3,100 beds, including the tertiary and acute care facility owned and operated by The Erie County Medical Center Corporation (ECMCC) as more fully described below, a U.S. Department of Veterans Affairs medical center and The School of Medicine and Biomedical Sciences at the State University of New York at Buffalo.

The Erie County Medical Center Corporation (the “Corporation” or “ECMCC”) was created as a public benefit corporation pursuant to Chapter 143 of the Laws of New York State in 2003 and began operation on January 1, 2004 for the benefit of the residents of New York State, the County of Erie and Western New York, including persons in need who lack the ability to pay. The Corporation’s health care facilities consist of the Medical Center, a 583 bed acute tertiary care facility providing inpatient, emergency, outpatient, primary care and specialty clinic services, a 390 bed residential health care facility providing long term care, short term rehabilitation, and skilled nursing care for chronic ventilator patients, both located on Grider Street in the City of Buffalo and three chemical dependency and alcohol rehabilitation clinics located through the County. The Corporation serves as the region’s only; Level 1 adult trauma center, burn center, comprehensive traumatic brain injury and spinal cord injury rehabilitation center, Comprehensive Psychiatric Emergency program provider for acute psychiatric emergencies, Regional Center of Excellence for Transplantation and Kidney care, and is the primary provider of HIV inpatient and outpatient specialty care. The Corporation is a major teaching hospital affiliated with the State University of New York at Buffalo School of Medicine and Biomedical Sciences.

The Corporation is a member of Great Lakes Health System of Western New York (“Great Lakes”). Great Lakes is a not-for-profit, community-based corporation comprised of unified partners whose objective is to provide the highest quality of healthcare to the residents of Western New York. Great Lakes is comprised of the Corporation, Kaleida Health and the State University of New York at Buffalo.

The Buffalo Niagara Medical Campus (“BNMC”) is a consortium of the region’s premier health care, life sciences research, and medical education institutions, all located on 120 acres in downtown Buffalo. The BNMC is dedicated to the cultivation of a world-class medical campus for clinical care, research, education, and entrepreneurship and consists of member agencies including the State University of New York at Buffalo, Kaleida Health, Hauptman Woodward Medical Research Institute, Roswell Park Cancer Institute, and other private sector non-profit groups. The BNMC has 4.5 million square feet of existing research, clinical, and support space today and more than 2 million square feet currently or soon to be under construction, equaling an investment of \$500 million in public and private funding. This includes a new \$64 million 300 bed long-term-care facility opened by Kaleida Health in December 2011.

The County is served by a morning newspaper published by the Buffalo News, Inc. with a circulation of more than 200,000. In addition, approximately 40 weekly newspapers, and local, general and special interest magazines and periodicals are circulated throughout the County. The area is served by 24 radio stations with a diverse range of programming, seven television stations (four of which are national network affiliates), and several cable TV companies covering multi-channel fare to a growing list of subscribers.

Erie County is home to a number of professional sports teams including the Buffalo Bills football team, Buffalo Sabres hockey team, the Buffalo Bisons minor league baseball team, and the Buffalo Bandits lacrosse team.

The Buffalo area has attained a national reputation for a broad diversity of ethnic heritage and culture. Cultural centers include Kleinhans Music Hall (home of the Buffalo Philharmonic Orchestra), Burchfield-Penney Art Center, the First Niagara Center, the Naval and Servicemen's Park, the Buffalo Zoo, the Albright-Knox Art Gallery, the Museum of Natural Science, the Buffalo and Erie County Historical Society Museum, the Botanical Gardens, and others.

For many years there has been an emphasis on enhancing the "quality of life" and on further developing the region's considerable cultural and recreational potential as another means of attracting and retaining investment and jobs. This includes the County's significant investment in recent years in the area's cultural institutions, including Frank Lloyd Wright's Darwin Martin House, Graycliff Estate and Rowing Boathouse and the Buffalo and Erie County Zoological Gardens. The County continued to serve as a significant source of annual operational funding to dozens of local agencies during 2012

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APPENDIX E

**COMPREHENSIVE ANNUAL FINANCIAL REPORT, INCLUDING FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016,
AND INDEPENDENT AUDITORS REPORT**

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

May __, 2018

Erie County Water Authority
295 Main Street, Room 350
Buffalo, New York 14203

Gentlemen:

We have acted as bond counsel in connection with the issuance of \$ _____ Water Revenue Bonds, Series 2018 (the "Series 2018 Bonds") of the Erie County Water Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"). The Series 2018 Bonds are authorized under and pursuant to the Erie County Water Authority Act, as amended, constituting Title 3 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State (the "Act") and under and pursuant to the Fourth General Water Revenue Bond Resolution adopted by the Authority on July 9, 1992, as amended and supplemented (the "General Resolution" or the "Resolution"), including but not limited to, by the Supplemental Resolution dated August 30, 2016 and the Supplemental Resolution Authorizing the Issuance of Water Revenue Bonds, Series 2018, adopted by the Authority on June 28, 2018 (the "Series 2018 Resolution"). The Series 2018 Bonds are being issued pursuant to the Act, the General Resolution and the Series 2018 Resolution to finance the cost of development, acquisition, and construction of certain improvements and additions to the Water System, and to pay certain Costs of Issuance of the Series 2018 Bonds. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the General Resolution or the Series 2018 Resolution.

The Series 2018 Bonds are issued only in fully registered form without interest coupons, in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, an automated depository for securities and clearinghouse for securities transactions which will maintain a book-entry system for recording the ownership interests in the Series 2018 Bonds. Only one Series 2018 Bond will be initially issued for each maturity in the aggregate principal amount of such maturity. Purchases of ownership interests in the Series 2018 Bonds will be made in book-entry form in denominations of \$5,000 or any integral multiple thereof.

The Series 2018 Bonds mature on December 1 in each year in the principal amounts set forth opposite such years in the following table, and bear interest at the rates per annum set forth in the table, payable on December 1, 2018, and semi-annually on June 1 and December 1 of each year until maturity or prior redemption, if any.

<u>Maturity</u> <u>December 1</u>	<u>Amount</u>	<u>Interest Rate</u>
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The Series 2018 Bonds maturing on or after December 1, 2027 are subject to redemption prior to maturity at the option of the Authority, on December 1, 2026 and thereafter on any date, in whole or in part, at par plus accrued interest to the date of redemption, in principal amounts of \$5,000 or integral multiples thereof. In addition, the Series 2018 Bonds are subject to redemption prior to maturity by the Authority upon a Change of Control, at such prices, on such dates and subject to notice and other such conditions as provided therein and in the General Resolution and the Series 2018 Resolution. The Series 2018 Term Bonds are subject to mandatory sinking fund redemption.

The Authority has the right to issue additional Series of Bonds, ranking equally as to security and payment with the Series 2018 bonds, upon the terms and conditions and for the purposes stated in the General Resolution.

In connection with the Series 2018 Bonds, we have examined the following:

- (a) The Constitution and statutes of the State, including particularly the Act.
- (b) The Internal Revenue Code of 1986, as amended, including particularly Section 103 and Sections 141 through 150 thereof, and, to the extent applicable, the regulations of the United States Treasury Department promulgated under the Internal Revenue Code of 1986, as amended (collectively, the "Code").
- (c) Certified copies of the proceedings of the Authority, including particularly the General Resolution and the Series 2018 Resolution authorizing, among other things, the issuance of the Series 2018 Bonds and the issuance, from time to time, of additional Bonds of the Authority on a parity with the Series 2018 Bonds.
- (d) The Arbitrage and Use of Proceeds Certificate executed by the Chairman of the Authority, certifying to the effect that the Authority will comply with the provisions and procedures set forth therein and that it will do and perform all acts necessary or desirable to assure that interest paid on the Bonds is excludable from gross income under Section 103 of the Code.

We have also examined an executed counterpart of the Certificate of Award executed by the Authority pursuant to the Series 2018 Resolution, together with such other documents, certificates, opinions and proofs relative to the issuance and sale of the Series 2018 Bonds as we deemed necessary or advisable in rendering this opinion.

We have also examined a form of the Series 2018 Bonds.

Based upon the foregoing, it is our opinion that:

- (1) The Authority is a body corporate and politic constituting a public benefit corporation, duly created and validly existing under the laws of the State, including particularly the Act.
- (2) The Authority had and has the right and power under the Act to adopt the General Resolution and the Series 2018 Resolution and to issue and sell the Series 2018 Bonds, and such Resolutions have been duly and lawfully adopted by the Authority, are presently in full force and effect, are valid and binding upon the Authority and are enforceable against the Authority in accordance with their respective terms, and no other authorization is required therefor.
- (3) The General Resolution creates the valid pledge it purports to create, subject only to the provisions of the General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution.
- (4) The Series 2018 Bonds are valid and legally binding obligations of the Authority as provided in the General Resolution and the Series 2018 Resolution, enforceable against the Authority in

accordance with their terms and the terms of the General Resolution and the Series 2018 Resolution and are entitled to the benefits of the Act and of the General Resolution and the Series 2018 Resolution and have been duly and validly authorized and issued in accordance with the Act, the General Resolution and the Series 2018 Resolution.

- (5) The Series 2018 Bonds are payable solely from the sources described in the General Resolution and do not constitute a debt or liability of the State or of Erie County or of any other political subdivision of the State.
- (6) Assuming continuing compliance by the Authority with its covenants contained in the Series 2018 Resolution and the Arbitrage and Use of Proceeds Certificate relating to certain requirements contained in the Code and certain other tax-related covenants, interest on the Series 2018 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. Moreover, interest on the Series 2018 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. However, interest on the Series 2018 Bonds is includable in the “adjusted current earnings” of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.
- (7) Interest on the Series 2018 bonds is exempt from personal income taxes imposed by the State of New York and its political subdivisions, including The City of New York and the City of Yonkers.

No opinion is rendered as the exclusion from gross income of interest on the Series 2018 Bonds for purposes of federal income taxation on or after the date on which any change occurs or action is taken or omitted under the Arbitrage and Use of Proceeds Certificate or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Phillips Lytle LLP.

In rendering the foregoing opinions, we also wish to advise you that the enforceability of the General Resolution, the Series 2018 Resolution and the Series 2018 Bonds may be limited by (i) any bankruptcy, insolvency or other law or enactment now or hereafter enacted by the State or Federal government affecting the enforcement of creditors’ rights and (ii) the unavailability of equitable remedies or the application thereto of equitable principles. We express no opinion regarding other tax consequences arising with respect to the Series 2018 Bonds.

Very truly yours,

APPENDIX G
FORM OF CONTINUING DISCLOSURE AGREEMENT