§ 1174-n. Exemption from taxes, assessments and certain fees; payments in lieu of taxes. 1. It is hereby determined that the creation of the authority and the carrying out of its corporate purposes is in all respects for the benefit of the people of the state and is a public purpose, and the authority shall be regarded as performing a governmental function in the exercise of the powers conferred upon it by this title and shall not be required to pay any taxes, special ad valorem levies or special assessments upon any real property owned by it or any filing, recording or transfer fees or taxes in relation to instruments filed, recorded or transferred by it or on its behalf.

2. The authority may pay, or may enter into agreements with any municipality to pay, a sum or sums annually or otherwise or to provide other considerations to such municipality with respect to real property owned by the authority located within such municipality and constituting a part of its water system.

3. Any bonds issued pursuant to this title together with the income therefrom shall be exempt from taxation. The revenues, moneys and all other property and all activities of the authority shall be exempt from all taxes and governmental fees or charges, whether imposed by the state or any municipality, including without limitation real estate taxes, franchise taxes, sales taxes or other excise taxes. For purposes of this subdivision, the phrase "exempt from taxation" means exempt from direct taxation in conformity with established judicial interpretation of the tax exempt status of the obligations of the state and its agencies, entities, authorities and political subdivisions and thus, the meaning of such phrase is in conformity with the legislative intent expressed by section twenty-two of chapter one hundred sixty-six of the laws of nineteen hundred ninety-one regarding the tax exempt status of obligations of the state and its agencies.

4. The state hereby covenants with the purchasers and with all subsequent holders and transferees of bonds issued by the authority pursuant to this title that the interest thereon shall be exempt from taxation. The state further covenants with the holders of such bonds that all revenues, moneys, and other property pledged to secure the

payment of such bonds shall at all times be free from such taxes. For purposes of this subdivision, the phrase "exempt from taxation" means exempt from direct taxation in conformity with established judicial interpretation of the tax exempt status of the obligations of the state and its agencies, entities, authorities and political subdivisions and thus, the meaning of such phrase is in conformity with the legislative intent expressed by section twenty-two of chapter one hundred sixty-six of the laws of nineteen hundred ninety-one regarding the tax exempt status of obligations of the state and its agencies.

5. Notwithstanding the above, nothing herein shall prevent the state from assessing a tax or surcharge against the water customers based on their water consumption, provided, however, that all such taxes and surcharges and the authority's obligation to collect and pay such taxes and surcharges shall be subordinate to the rights of holders of all of the authority's bonds and notes and to the payment of principal, premiums if any, and interest thereon.