

**MINUTES OF THE MEETING OF THE
NEW YORK CITY WATER BOARD
April 29, 2022**

A meeting of the New York City Water Board (the “Board”) was held on April 29, 2022 beginning at approximately 2:30 p.m. via teleconference in accordance with the Governor’s Emergency Order regarding the Covid-19 pandemic. Members of the public called into the teleconference to listen to the meeting, in addition to the availability of a live text captioning option. The following members of the Board attended the meeting:

Alfonso Carney,

Evelyn Fernandez-Ketcham,

Adam Freed,

Jonathan Goldin,

Jukay Hsu

Arlene Shaw, and

Daniel Zarrilli

constituting a quorum. Mr. Carney chaired the meeting, and Albert Rodriguez served as Secretary of the meeting.

Approval of the Minutes

The next item on the agenda was approval of the minutes of the Board’s previous meeting held on December 16, 2021. Upon motion duly made and seconded, the minutes of the meeting held on December 16, 2021 were unanimously adopted.

Presentation on Proposed Water and Wastewater Rates and Charges to Take Effect July 1, 2022

Next, Water Board Executive Director and Department of Environmental Protection

(“DEP”) Chief Financial Officer Joseph Murin introduced DEP’s new Commissioner, Rohit Aggarwala, who was appointed to the role by Mayor Eric Adams on January 31, 2022. Commissioner Aggarwala also serves as the City of New York’s Chief Climate Officer.

Commissioner Aggarwala made a presentation updating the Board on DEP’s operations, capital program, and strategic projects. The Commissioner noted that former Commissioner Vincent Sapienza was now serving as DEP’s Chief Operating Officer, and commended Mr. Sapienza for his dedication and service to DEP. Chairman Carney added his own words of thanks to former Commissioner Sapienza. Commissioner Aggarwala noted that DEP’s ability to provide water and wastewater services throughout the pandemic was not materially disrupted. The Commissioner further noted that the pandemic has had an impact on certain aspects of DEP’s operations, including the level of staffing, which is lower than prior to the pandemic, and presenting challenges to DEP’s ability to hire new employees, particularly in technical job titles such as engineering roles. Commissioner Aggarwala stated that reduced staffing levels presented a management challenge, but that vacancies were not yet a source of risk to the agency, and that recruiting, hiring, and training would be areas of significant focus for the agency in the coming year. The Commissioner also noted that:

- DEP personnel working off-site during the pandemic returned to the office on a full-time basis in 2021, further noting that approximately half of DEP’s employees continued working on-site throughout the pandemic due to the nature of their job duties;

- The agency’s strategic plan developed during the de Blasio administration covered a time period that ended with the conclusion of the de Blasio administration, and that there is a need for the agency to examine its needs and priorities on an analytical basis to create a vision and viewpoint on investment priorities in the upcoming years;

- DEP’s introduction of the UMAX billing system was a major undertaking, and the

Commissioner commended DEP Deputy Commissioner Jeff Lynch and his team for their work on developing and deploying the system;

- Work on the Delaware Aqueduct Bypass Tunnel has reached an advanced stage, and that the timetable for the Tunnel shutdown is being developed, in cooperation with regulators and local municipalities;

- Sewer construction work in Canarsie was completed at a cost of \$148 million;

- A \$15.7 million set of improvements to the Durham Park Reservoir;

- A \$29 million upgrade program focused on NYCHA has commenced, including green infrastructure and stormwater mitigation among its priorities;

- An \$18 million Department of Transportation partnership for work at Montefiore Square was completed;

- A \$7 million drainage upgrade in Westerleigh, Staten Island was completed, including storm sewers, catch basins, and water main upgrades.

Commissioner Aggarwala concluded his remarks by mentioning DEP's ten-year capital plan. The Commissioner described the plan's \$25 billion of budgeted funds as robust, and noted that the New York City Council was reviewing the plan, and that expectations are that the Council will approve the plan in substantially similar form to the proposed capital budget. Commissioner Aggarwala then handed the presentation to DEP Chief Financial Officer Joseph Murin.

Mr. Murin began by explaining that the water and sewer revenues that stem from customers paying their utility bills are the source of funds to pay for the two largest components of the Board's budget, which are the operation and maintenance costs of DEP and the expenses incurred in connection with DEP's capital program. Mr. Murin explained that while bond market interest rate benchmarks have increased since the fourth quarter of calendar year 2021, current borrowing rates remain comparable to long-term average borrowing costs, while also noting that

rising interest rates would increase the system's costs through higher required interest payments.

Mr. Murin paused the presentation to introduce two representatives of the New York City Municipal Water Finance Authority, Chief Executive Officer David Womack and Executive Director Olga Chernat. Chairman Carney welcomed Mr. Womack and Ms. Chernat, and asked Ms. Chernat to provide a perspective on how rising interest rates would effect the marketing of Water Authority bonds. Ms. Chernat noted that the system has \$32 billion of bonds outstanding in the market, that the Authority expects to sell approximately \$1.8 billion of additional bonds each year through 2026. Ms. Chernat explained that the Authority has an experienced team involve in structuring and marketing the bonds, that the Authority diversifies its bond offering between fixed and variable rate bonds, and between different coupon structures, and that the Authority is prepared to take the required steps to successfully market the bonds. Ms. Chernat concluded by mentioning that the ratings of the Authority's bonds remain just below AAA quality based on ratings from each of the three major rating agencies, Fitch, Moody's, and S&P.

Chairman Carney's next question was whether the rising interest rate environment would influence the types of transactions undertaken by the Authority or the mix of variable and fixed rate instruments issued by the Authority. Mr. Womack replied that the Authority continues to refund existing bonds when lower interest rates are available, and that as interest rates rise, the Authority will continue to refund existing bonds as opportunities present themselves. Mr. Womack further explained that shorter-term variable rate and longer-term fixed rates bonds have seen market interest rates change at different rates, and stated that the Authority moves aggressively when it can refinance fixed rate bonds at less than 1% or in the 1% range, and that the Authority's variable rate debt now trades in the range of 1%, while market rates for fixed rate instruments are in the 2.5% to 3.0% range. Mr. Womack concluded by mentioning that, given the large size of DEP's capital program, borrowing is an essential technique for financing the cost of

the system's capital budget.

Member Shaw asked for an explanation of the reasons the Authority's credit ratings are high. Mr. Womack explained that the quality of management of the system's resources, as well as the strength of the cash flows and the level of coverage with respect to debt service and operating costs were significant factors, especially since the cash flows and coverage did not vary significantly during the Covid-19 pandemic. Ms. Chernat added that the legal design of the bonds includes several structural factors that protect bondholders and support the system's high credit ratings.

Member Zarrilli asked about the importance of the Board's authority to raise rates, and any resulting impact on the system's credit ratings. Mr. Womack replied that the rating agencies consider the Board's independence from the legislative process to be an important factor supporting the credit ratings.

Mr. Murin resumed the presentation by providing the Board with a financial update, noting that revenues through April 27 were \$3.14 billion, an increase compared to the same time in fiscal year 2021 of 3.6%. Mr. Murin noted that DEP faces several financial headwinds, including the balance of overdue customer bills, lowered water consumption, and the availability of collection tools. Mr. Murin added that total water consumption by metered accounts is below the pre-pandemic level, with residential consumption slightly higher, and non-residential consumption approximately 15% below the pre-pandemic level. Mr. Murin noted that DEP's customer base includes a large number of delinquent accounts, and that the dollar value of the delinquencies is large, and that following a legislated pause, the agency resumed sending out delinquency notices after the end of calendar year 2021. Mr. Murin further stated that the system has not conducted a lien sale since 2019, and that no City legislative authorization to conduct lien sales is currently in effect.

Turning to the financial proposal, Mr. Murin noted that revenues from water and sewer rates is projected to increase from \$3.5 billion in fiscal year 2022 to \$3.7 billion in fiscal year 2023, while system operation costs are expected to increase from \$1.6 billion in fiscal year 2022 to \$1.76 billion in fiscal year 2023. He further noted that the Board's rate report, the Blue Book, would be published on the Board's website shortly after the meeting. Turning to the proposed rate increase, Mr. Murin presented DEP's recommendation for a 4.9% increase to water and sewer rates charged in New York City, including a \$30 million customer affordability program, preserving the 50% increase to program funds previously authorized for fiscal year 2022, and noted that no rental payment was expected for fiscal year 2023.

Chairman Carney asked about how the specific proposed percentage was determined, to which Commissioner Aggarwala replied that the rate increase is the product of a financial analysis and modeling exercise focused on ensuring revenue sufficiency in light of the system's costs, and that all financial models include a degree of variability and that a specific numerical output from any financial model has a level of variability around the precise numerical value. Mr. Aggarwala added that DEP has work to do in the near-term in the areas of hiring and revenue collection, and that while the 4.9% proposed increase is a significant amount, the agency faces pressure to continue to deliver services to the City.

Treasurer Omar Nazem added that the rate increase and budget require striking a balance between achieving the debt and expense coverage ratios that support high credit ratings, while preserving customer bill affordability in the City. Mr. Nazem added that with many of the system's customers still recovering from income losses experienced during the pandemic, DEP and the Board's staff believe that taking a cautious approach with respect to the rate increase is appropriate for fiscal year 2023.

Mr. Carney requested that Ed Markus with the Amawalk Consulting Group, the Board's

rate consultant, provide a perspective on the rate increase, in light of the numerous demands on the system. Member Shaw added that she would value additional information about the economic assumptions underlying the model, in particular how price inflation influences the model.

Mr. Markus explained that Amawalk works in partnership with DEP to develop a rate proposal that ensures adequate cash flows, while maintaining a reasonable customer impact, and offered to walk the Board through the rate model assumptions, if requested by the Board. Chairman Carney stated that he would like the Board to receive some additional financial detail prior to the first public hearing, to which Mr. Markus replied that the information would be made available to the Board, and Mr. Murin added that a cash flow analysis with annotations would be provided to the Board.

Mr. Nazem then presented information to the Board describing the magnitude of the rate increase on typical customer water and wastewater bills, indicating that a monthly increase to a customer's bill of \$3-4 would be the experience of a residential customer with an average level of water consumption, and that customers billed on the minimum charge would not see any increase in their rate. Mr. Nazem then presented DEP's proposed customer affordability program budget of \$30 million, which as proposed would retain for a second program year the 50% increase to the program's budget previously approved by the Board for fiscal year 2022. The programs included under the \$30 million, as proposed, would be the same set of programs offered in fiscal year 2022, including the small property owner program, the affordable rental program available to landlords, and the Board's leak forgiveness program, which makes a partial bill credit available to customers that report and repair a water leak within a specified time period. Mr. Nazem proceeded to present a benchmark of typical water bill costs in the City as compared to an average of thirty other large cities, noting that the cost of water in New York City has consistently been below the thirty city average.

Mr. Nazem then presented several proposed amendments to the Board's rate schedule, highlighting a one-year deferral until June 30, 2023 of the surcharge for properties billed on the Multi-Family Conservation Plan that have not yet demonstrated administrative compliance with the program's requirements, as well as the proposed rule clarification relating to interest charges on delinquent wholesale customer bills.

Mr. Murin presented the preliminary proposal of the wholesale water rate increase, indicating that an increase of up to 4.9% would be required for the regulated allowance quantity rate, which would increase the water component of a typical wholesale customer's bill by \$7 per year. Mr. Murin noted that wholesale water revenues were approximately \$80 million per year, and that the Board's rate consultants with Amawalk would be providing the final rate report on the allowance quantity to the Board following the meeting.

Member Freed mentioned that he has previously worked with Commissioner Aggarwala, and was enthusiastic that his leadership would help to achieve the City's climate agenda and goals. Mr. Freed then asked about the status of the sustainable rate structure study underway by DEP. Mr. Murin replied that DEP's new billing system was deployed in September 2021, that the roll-out of the system is proceeding well, and that alternate rate structures would not be something DEP could consider while the system is still in the post-launch phase, but would be able to begin considering once the post-launch phase is completed.

Commissioner Aggarwala reiterated that the agency faces significant vacancies, with approximately 900 current job openings compared to 5,200 currently onboarded staff, and noted that DEP is in discussions with the City's Office of Management and Budget and with City Hall about staffing priorities. Commissioner Aggarwala mentioned that he believes the agency faces a challenge to identify what it should look like once fully staffed, recognizing the importance of taking a forward-looking approach to the job titles and skills required by the agency.

Member Zarrilli raised a question about the format for conducting the Board's meetings, and requested a discussion of the most appropriate format for the meetings. Mr. Zarrilli further requested information about what rate increases in future years might look like, and asked for more detail on the \$30 million customer affordability program, indicating an interest in understanding if a \$30 million budget was the right size for the affordability program.

Member Goldin asked if any steps were available to insulate the system against rising rates of inflation. Mr. Murin replied that DEP and Amawalk build an inflation factor into the financial model used for rate forecasting, currently a 3% inflation factor. Mr. Murin added that fully hedging against inflation would be a challenge for the system, and would be an expensive undertaking or require maintaining large financial reserves on-hand, which would involve further rate increases to create additional reserve funds.

Mr. Murin then referred members to the written update on DEP's sustainable rate structure study included with the presentation materials, and asked if any members had questions about the status of the study. Mr. Murin then informed the Board of the public hearing schedule included with members' packets and posted on the Board's website, with the wholesale rate hearing to take place on Tuesday May 24, the two in-City hearings scheduled for May 25 and 26, and the Board's next meeting to vote on the Board's budget and rates for the coming fiscal year scheduled for June 1.

There being no further business to come before the Board, upon motion duly made and seconded, the meeting was adjourned.

/S/
SECRETARY