

**MINUTES OF THE MEETING OF THE
NEW YORK CITY WATER BOARD**

October 13, 2022

A meeting of the New York City Water Board (the “Board”) was held on Thursday October 13, 2022 beginning at approximately 8:45 a.m. The following members of the Board attended the meeting:

Alfonso Carney,
Evelyn Fernandez-Ketcham,
Jukay Hsu, 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 first item on the agenda was approval of the minutes of the Board’s previous meeting held on September 23, 2022. Upon motion duly made and seconded, the minutes of the meeting held on September 23, 2022 were unanimously adopted.

Financial and Investment Update Covering Fiscal Year 2022 and 2023

Executive Director Murin presented the results of the Board’s fiscal year 2022 financial audit performed by the Board’s auditors at Grant Thornton. Mr. Murin explained that the system’s revenues declined between fiscal years 2020 and 2021, before resuming an upward trend between fiscal years 2021 and 2022, resulting in fiscal year 2022 operating revenues of \$3.88 billion and total system revenues of \$4.03 billion, with the increase attributable to a combination of the 2.76% rate increase for the year and higher water consumption. Mr. Murin explained that the Board’s investment income had followed a similar pattern, of declining between fiscal years 2020 and 2021,

before increasing again in fiscal year 2022, and further noted that investment income could see further improvements due to a rising interest rate environment. Mr. Murin described the lower expenses incurred by the Board in fiscal year 2022, which was due in part to the City deciding not to request a rental payment from the Board, and the \$1.05 billion of interest payments on water debt, which was also lower than in fiscal year 2021, and was connected to the water system capital program, which placed \$1.66 billion of utility plant into service during fiscal year 2022.

Mr. Murin next described some of the forward-looking factors facing the Board in advance of the fiscal year 2024 rate setting. Mr. Murin noted that the revenue recovery continued into fiscal year 2023, but cautioned that DEP faced several issues, including a large personnel vacancy rate, and the challenges DEP was facing with recruitment and employee retention, as well as the challenges of higher inflation and interest rates, and noted chemicals, utilities, and fuel as among the key variable costs trending higher due to inflation. Mr. Murin further noted that the City has numerous expired collective bargaining agreements that the Mayoral administration is working on, and that the cost of personnel services and pensions involved in settling the agreements could be significant. Member Zarrilli inquired if the lower headcount was exacerbating concerns about the pace of employee retirements. Mr. Murin responded that retirements are a concern, and that DEP has a workforce that is demographically older than the City-wide workforce, and that DEP was pursuing recruitment efforts to fill open vacancies, and noted that there had not yet been significant operational impacts from the vacancies, as the result of using overtime and work shift reallocations to create workflow capacity.

Mr. Murin further noted that hiring certain technical and trades job titles remained a focus for DEP. Member Hsu asked if any types of roles were proving especially difficult to fill, and if the hiring challenges were being seen throughout the agency. Mr. Murin explained that engineers, information technology, and legal professionals were proving difficult to hire, due to the in-office

work format and to compensation levels. Commissioner Aggarwala noted that the agency has conducted two employee morale surveys, which concluded that the agency's field personnel were relatively happy with the roles, and that morale issues were more frequent with professional and desk-bound roles. Member Hsu inquired about the role of civil service titles in the hiring process, which Commissioner Aggarwala replied that, with the exception of a few exempt titles, most roles within DEP are civil service roles.

Treasurer Nazem presented the Board with a summary of the returns on the Board's investment portfolios for the previous fiscal year, indicating that the Board's investment income for fiscal year 2022 was \$911,000. Mr. Nazem explained to the Board that the source of the Board's investment income is U.S. government treasury bonds purchased with funds received from customers in advance of the time at which the Board is required to transfer funds to the City or to the Water Finance Authority. Mr. Nazem described the Board's investment strategy, which until fiscal year 2019 was focused on purchasing only U.S. government bills and notes, and from 2019 on was focused only on short-term U.S. government bills. As a result of the lower interest rates available on government securities, the Board had just \$377,000 of investment income in fiscal year 2021, which was the lowest amount of income for the Board since fiscal year 2014. The \$911,000 of investment income in fiscal year 2022 was a substantial increase from fiscal year 2021, although still below the \$5 million to \$10 million of annual investment income generated by the Board's investment portfolio prior to the decline in interest rates during the pandemic. Treasurer Nazem noted that many investors in longer-term government securities experienced 20% investment losses during the fiscal year, and that large investment losses were avoided by the Board due to its focus on Treasury bills. Mr. Nazem concluded by mentioning that, with the rising interest rate environment, the Board was assessing whether to begin purchasing some longer-term securities.

Member Carney asked how the Board's investments were managed. Treasurer Nazem

explained that the Board’s investment options are defined in the Board’s investment guidelines document, which lists allowable securities purchases, and that the tactical decision of security selection is performed by the Board’s staff, in collaboration with counsel. Mr. Nazem added that the Board’s security trades are made by the trading desk at the City Comptroller’s Office, that the Board is not charged a fee for the trading services provided by the Comptroller’s Office, and that the Board’s investments are in custody at State Street.

Chairman Carney asked if there were any further matters or discussions from the meeting of the joint audit committee on October 12 that the Board should discuss before considering the resolution before the Board. Mr. Murin stated that the auditors had issued a clean opinion, and that the auditors were complimentary toward the system’s accounting and finance teams. Mr. Murin added that there were no material findings during the audit, and that the auditors had included a comment about a technology finding. Mr. Nazem explained that the technology finding related to the Board’s old CIS billing system, which was replaced during the fiscal year by the UMAX system. Mr. Carney also recognized the New York City Municipal Water Finance Authority’s chief executive, David Womack, who was in attendance. Mr. Womack confirmed that the Water Finance Authority’s board of directors had also met on October 12, and had approved the financial statements at its meeting.

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLUTION

WHEREAS, the New York City Water Board (the “Board”) and the New York City Municipal Water Finance Authority (the “Authority”) established a joint Audit Committee in light

of their joint role in the financial operations of the water and wastewater system of the City of New York (the “System”); and

WHEREAS, pursuant to the joint Audit Committee Charter and the Board resolution of January 25, 2008 establishing the joint Audit Committee, the Board and the Authority each acting separately, after receiving a recommendation from the joint Audit Committee, shall annually approve the audited financial statements of the System; and

WHEREAS, on October 12, 2022, the Audit Committee met with the independent auditors and reviewed their report on the System’s audited financial statements for the fiscal years ended June 30, 2022 and June 30, 2021; and

WHEREAS, the Audit Committee believes the independent auditors’ report and the financial statements are reasonable and appropriate and has recommended that the Board and the Authority accept the independent auditors’ report and authorize the release of the financial statements; and

WHEREAS, the Board of Directors of the Authority approved the auditors’ report and authorized the release of the financial statements contingent on their approval by the Board; it is therefore

RESOLVED, that the Board hereby accepts the independent auditors’ report on the audited financial statements of the System for the fiscal years ended June 30, 2022 and June 30, 2021 and authorizes the release of such audited financial statements, provided that both the independent auditors’ report and the audited financial statements may be amended to reflect non-material changes acceptable to the Comptroller of the Authority.

Review and Approval of Investment Guidelines

Mr. Nazem briefly summarized the investment guidelines, which staff was proposing would

remain unchanged from the existing document, with the allowable securities purchases including U.S. government securities and securities with the explicit backing of the U.S. government.

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLUTION

WHEREAS, the New York City Water Board (the “Board”) adopted Investment Guidelines to establish policies for the investment of its funds on May 2, 1986 and subsequently amended the Investment Guidelines on October 24, 1990 and February 14, 1997; and

WHEREAS, pursuant to the Investment Guidelines, the Board is required annually to review and approve both the Investment Guidelines and an Investment Report; and

WHEREAS, the Board has reviewed the Investment Guidelines as contained in the Fiscal Year 2022 Investment Report and finds both the guidelines and report to be reasonable and appropriate; it is therefore

RESOLVED, that the Investment Guidelines and the Fiscal Year 2022 Investment Report, copies of which will be filed with the minutes of this meeting, are hereby approved.

Approval of a Resolution for the Solicitation and Contracting of a Grant Funding Consultant

Chairman Carney reminded the Board that DEP had presented a funding request for a government grant consultant at the Board’s September 23rd meeting and that, after discussion and consideration, was comfortable with presenting the request to the Board for a vote.

There being no further discussion, upon motion duly made and seconded, the following resolution was unanimously approved by the Board:

RESOLUTION

WHEREAS, pursuant to Sections 1045-b and 1045-g of the New York City Municipal Water Finance Authority Act (the "Act"), the New York City Water Board (the "Board") is authorized to enter into contracts and to retain private consultants on a contract basis for the purpose of obtaining professional or technical services to assist the Board in carrying out its responsibilities; and,

WHEREAS, the Board's primary duty under the Act is to establish and collect water and wastewater rates and charges in an amount sufficient to place the water supply and wastewater systems of the City of New York on a self-sustaining basis; and

WHEREAS, the New York City Department of Environmental Protection (DEP), which operates the City's water and wastewater system and serves as the Board's customer service and billing agent, has requested that the Board assist in identifying and retaining a consulting firm with the ability to assist DEP and the Board in identifying, obtaining, and administering during the post-award phase inter-governmental grants, principally Federal grants; and

WHEREAS, substantial amounts of new Federal funding are becoming available as the result of Federal legislation, including the Federal Infrastructure Investment and Jobs Act of 2021 and the Federal Inflation Reduction Act of 2022, at the same time that DEP and the Board are receiving growing requests to ensure that water and wastewater rates remain affordable to the system's customers; and

WHEREAS, obtaining inter-governmental grants is a technical and intensive process, requiring expertise in grant-making and an understanding of the applicable rules and regulations, usually requiring conforming to strict grantor timelines and regulations, at a time when DEP's headcount is more than sixteen percent below budgeted levels; and

WHEREAS, inter-governmental grants, once awarded, require ongoing reporting and administration involving the grantor entity, while conferring an affordability benefit to the system's customers by providing an additional funding stream, in addition to customer bill payments; and

WHEREAS, the Board wishes to authorize the Board's Executive Director to undertake a

competitive solicitation and negotiation process, conducted in accordance with the Water Board's Policy on the Procurement of Goods and Services, in particular, Section 4 (selection based on the best combination of technical merit and price) and Section 5.i (prior approval of contracts where the cumulative value exceeds \$100,000); it is therefore

RESOLVED, that the Executive Director is hereby authorized and directed to undertake such a process of solicitation, and to identify and negotiate a professional services agreement with one or more suitable consulting firms with relevant expertise in the area of obtaining and administering inter-governmental grant funding, for an initial two-year term with two additional one-year extensions at the Board's option, upon such terms and conditions as the Executive Director may deem reasonable and appropriate; and be it further

RESOLVED, that the total compensation for services performed for the term of the agreement, including both the initial term and the term of the extension options, should the extension options be exercised, shall not exceed \$5,000,000 of Board funds.

Discussion of Annual Board Evaluation Forms

Chairman Carney requested that the Board turn its attention to the annual self-evaluation form, and asked members for their opinions on the form and the appropriateness of the questions. Treasurer Nazem described the form to the Board, and indicated that the form provided to members was substantially similar to the form used in previous years, with the addition of a "not applicable" column, for use in instances where a member determines that a question on the form does not describe the Board's responsibilities, or otherwise cannot be answered.

Chairman Carney further drew the Board's attention to Operations and Accomplishments report, the Board's Measurement Report, and the Board's vendor contract summary, and requested that members provide any comments or questions in connection with the documents. Member Zarrilli asked if the Measurement Report form should include criteria for measuring preparation for

climate change and intensified rainfall. Commissioner Aggarwala stated that the strategic consulting work authorized by the Board at its September meeting would include an assessment of measurable returns on DEP's capital spending. Treasurer Nazem added that additional criteria would need to be measurable or quantifiable.

Update by DEP on Customer Accounts Receivable

Commissioner Aggarwala provided the Board with an update on DEP's customer accounts receivable. The Commissioner explained that DEP was looking at ways to help customers bring their accounts into good standing, as well as looking at ways to maintain customer bill affordability. The Commissioner offered to provide the Board with a proposal for reducing accounts receivable at its next meeting. The Commissioner explained that since the Covid-19 pandemic, accounts receivable dollar balances at 180 days or more had increased significantly, from \$600 million to more than \$800 million, although the number of delinquent accounts had decreased as well, from 114,000 to 94,000, with the dollar balance increases seen at larger buildings, including coops, condos, and commercial buildings, and with delinquencies weighted in line with the City's residential account base. The Commissioner mentioned that DEP has been marketing the Federal LIHWAP program to its customers, and that the program offered water bill benefits to customers within a specified income range. Commissioner Aggarwala added that the City is currently operating without the tax lien sale, which is a factor in assessing delinquent balances.

Member Zarrilli asked if an outlook was available on whether the City Council would renew the tax lien sale. Commissioner Aggarwala indicated that an outlook was not currently available, that DEP was exploring alternative options for reducing accounts receivable and reiterated that DEP would be providing the Board with a plan to address receivables balances at its next meeting.

Member Hsu asked how the growth in receivables balances compared to the trend in other cities. Commissioner Aggarwala stated that the root causes of the increase in receivables was

economic, and that the trend was national and global in nature. Commissioner Aggarwala concluded the presentation by requesting that members review the one hundred accounts with the largest delinquent balances that was included with the members' meeting packets.

Adjournment

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

/S/
SECRETARY