NEW YORK CITY WATER BOARD

NYC Water Board Meeting

10/15/20

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MR. ALBERT RODRIGUEZ: I'm gonna call, call the roll now, and then after I call the role, I'm just gonna make a short statement on, , taking votes from the board members for action items so they're on the agenda today. Taking the role, Chairman Carnie?

CHAIRMAN ALFONSO J. CARNIE: I am present.

MR. RODRIGUEZ: Member Carolina.

DR. DEMETRIUS CAROLINA: Present.

MR. RODRIGUEZ: Member Fernandez-Ketcham?

MS. EVELYN FERNANDEZ-KETCHAM: I'm here.

MR. RODRIGUEZ: Member Freed?

MR. ADAM FREED: Present.

MR. RODRIGUEZ: Member Goldin?

MR. JONATHAN E. GOLDIN: Present.

MR. RODRIGUEZ: Member Hsu? Member, member Shaw?

MS. ARLENE M. SHAW: Present.

MR. RODRIGUEZ: Okay. Thank you. Mr. Chair, we have a quorum for the meeting. Uh, going forward for the action items on the agenda, the protocol which I believe which isbest for us today is when we take, a vote for action items, that each, member be called by name to, to get their vote.

CHAIRMAN CARNEY: Thank you, Al, I was going to suggest it. It's a great idea. Uh, it's probably the easiest way to get it done. the first item on the agenda, may I? Is it--

MR. RODRIGUEZ: Yeah. We have a quorum.

CHAIRMAN CARNEY: - -

MR. RODRIGUEZ: Yeah, we have a quorum.

CHAIRMAN CARNEY: No, no that's it. Thank you. We have, uh, two, two quick items. We have minutes from the meeting of May 22 and minutes from the meeting of June 19. We're going to vote them separately. You've had a chance to look at them. Thank you, Omar, for getting all these things out to us. The May 22nd meeting, are there any, questions about those minutes? Hearing none, , may I have a motion, please, to approve.

MR. FREED: This is Adam. So moved.

CHAIRMAN CARNEY: Thank you, Adam. And the second was from?

MR. DR. CAROLINA: : Carolina.

MS. SHAW: Arlene. Sorry.

CHAIRMAN CARNEY: Okay. Al, you'll, you'll figure that out. I will ask, Al, that you, uh, poll the members.

MR. RODRIGUEZ: Mr. Member Carolina, how do you vote?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Fernandez Ketcham, how do you vote?

MS. FERNANDEZ-KETCHAM: Aye.

MR. RODRIGUEZ: Member Freed, how do you vote?

MR. FREED: Aye.

MR. RODRIGUEZ: Member Goldin, how do you vote?

MR. GOLDIN: Aye.

MR. RODRIGUEZ: And Member Shaw, how do you vote?

MS. SHAW: Aye.

MR. RODRIGUEZ: Okay, thank you. Mr. Chairman that motion was approved.

CHAIRMAN CARNEY: Thank you, and unanimously.

MR. RODRIGUEZ: Yes.

CHAIRMAN CARNEY: And the minutes of the June 19th meeting are the next agenda item. You've had a chance to take a look at those. Are there any suggestions for revisions or?

Hearing none, may I have a motion, please, to approve them.

MR. GOLDIN: So moved, Jon Goldin.

CHAIRMAN CARNEY: Thanks, John. Is there a second?

MR. FREED: This is Adam. I second it.

MS. SHAW: Second, Arlene Shaw.

CHAIRMAN CARNEY: Adam, thank you very much. Mr. Rodriguez, would you then poll the members?

MR. RODRIGUEZ: Yes, sir. Member Carolina, how do you vote?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Fernandez-Ketcham, how do you vote?

MS. FERNANDEZ-KETCHAM: Aye.

MR. RODRIGUEZ: Member Freed, how do you vote?

MR. FREED: Aye.

MR. RODRIGUEZ: Member Goldin, how do you vote?

MR. GOLDIN: Aye.

MR. RODRIGUEZ: Member Shaw, how do you vote?

MS. SHAW: Aye.

MR. RODRIGUEZ: And Chairman Carney, how do you vote on this resolution for approval?

CHAIRMAN CARNEY: Aye.

MR. RODRIGUEZ: Yes that, that motion is unanimously approved, Mr. Chairman.

CHAIRMAN CARNEY: Terrific. Thank you. The next agenda item, and Omar, I'm sorry, is the Commissioner with us?

COMMISSIONER VINCENT SAPIENZA: I am, yes.

CHAIRMAN CARNEY: Commissioner, how are you? It’s good to have you!

COMMISSIONER SAPIENZA: Chairman Carney, it's good to be here. Thank you. This is - - here.

CHAIRMAN CARNEY: There is, the next agenda item is a presentation. It's the financial update covering fiscal years 2020 and 2021. I know that Joseph is with us. I haven't heard Jeff Lynch yet. Are you there?

MR. JEFF LYNCH: Yeah, I'm here.

CHAIRMAN CARNEY: Outstanding. Then you all have the floor, and thank you very much all three of you for being here.

COMMISSIONER SAPIENZA: Thank you. So, I guess, Chair Carney, I'll get started, so good morning, and good morning to all the board members. Hope everyone is doing as well as can be expected. I'll start the presentation, give a bit of an overview where FY20 landed and our current FY21 status and then turn it over to the team to get into detail, so I guess this is slide two, Omar, we're on.

MR. OMAR NAZEM: Okay.

COMMISSIONER SAPIENZA: So, where things stand, in general, some hopeful signs, but uncertainty still remains. System revenues for Fiscal Year 20 in total and FY21 to date have been steadier than expected, and the city is incrementally reopening for business and schools, though, you know, normal patterns of activity are still likely aways away. We've all seen in recent weeks some of the recent clusters in Brooklyn and Queens that have shut things down, so we're not expecting things to get back to normal for a while. Operating capital expenses for fiscal 20 were both below budget, as we tightened our belt a bit, and again, despite the encouraging signs, there's still reason for caution, and risks remain on the horizon. We'll go to slide three now, and I'll just talk a bit about DEP's response during the pandemic. So, since March, water and waste water operations have been running normally. There's been no impact to the quality or quantity of the drinking water, or to the availability of waste water treatment. The majority of our workforce has been reporting to their field assignments each day, and we've been using social distancing and PPE, and for our support staff, we've been using remote work arrangements, which still remain in effect. DEP is subject to the city-wide hiring pause and furlough policy. It is not currently subject to the possibility of changes to the size of its workforce that performs functions funded by utility revenues. Still, the city is looking at all aspects of cost structure, and guidance from the city could change int eh coming months. As mentioned earlier, the agency is implementing expense savings and efficiencies. Cash management procedures are in place to contain discretionary expenditures during FY21, and we have been discussing with our environmental regulators whether portions of mandated capital work can be re-prioritized in light of the financial and logistical challenges presented by

COVID. So now, I'll turn it over to Chief Financial Officer Joe Murin to get into details on, on fiscal 20 and 21.

MR. JOSEPH MURIN: Thank you, Commissioner, and good morning, Chair Carney.

CHAIRMAN CARNEY: Thank you. Thank you very much, Commissioner.

MR. MURIN: Yeah.

COMMISSIONER SAPIENZA: Thank you.

MR. MURIN: And thank you, Chair Carney, and good morning to Board members.

CHAIRMAN CARNEY: Thank you.

MR. MURIN: I’m going to go through and also have where needed Omar and Jeff step in to speak to their respective areas, but as you can imagine COVID, and I'm on slide four of the presentation now, the FY2020 review. So, COVID 19 has extensively, has had an extensive and significant impact on the city during Fiscal Year 2020. This, and I'm going to let Omar speak to the revenue impact in terms of that, so I'm going to turn it right over to him first.

MR. NAZEM: The punch line for Fiscal Year 20 is that cash operating revenues came in only very slightly below budget. They were about two-fifths of one percent below budget, or $16 million below on our $3.8 and change billion dollar budget. We don’t like to be below budget, but if you look at where things were in March and April during the worst of the pandemic, I don't know that we would have guessed at that time we'd come in so close to budget, so I guess all things considered, this was a pretty, a place, this was a good place to wind up for the year, compared to where we were in back in March and April. If you, if you look at where we were back in March and April, we were seeing year-over-year declines in revenues of nearly 30 percent. We clawed those back in May and June very nicely, which is how the year finished. I would emphasize, just for the people on the call, when I say cash operating revenues, , emphasis on cash. It's a slightly different presentation I'm talking about here than what you see in the financial packet. The reason for that is, we do our financials on an accrual accounting basis whereas we report to the Board on a cash basis, because that's what drives the financial obligations the board is really focused on when it sets the rate for the year, but the two are very similar, and it's a similar story between them. Bottom line, we came in, and we came in right about at budget, which was, all things considered, a pretty decent outcome.

MR. MURIN: Thank you, Omar. And now on to, and I'll pause for a moment to see if any of the Board members have any questions for Omar on the revenue for the year? End of 21? Okay, hearing none, so for Fiscal Year 2020, operating and maintenance expenses were below budget by $93 million, and that was primarily due to lower spending on contracts, chemicals, occupancy expenses and personnel expenses, much of it due to tele-working and slowing down in hiring and operations. Some of those things we may see on an ongoing basis, as the pandemic continues. Some of those things we expect to come back in the coming year, as you know, as things get back to normal. I will also say that on the capital side, capital commitment were less than expected, due to the city-wide delays in processing contracts due to COVID-19. We had originally been scheduled for about $2.5 billion worth of capital commitments for Fiscal Year 20.

We ended the year just slightly above $1 billion in capital commitments, so there was a significant delay in capital projects getting out the door and being able to get committed. We'll talk more about it as we get into 21. Now skipping, going over next to slide five, which is the FY 2021 review. If you, but, before I do that, I'm just trying to modulate myself to the, let me pause to see, does anybody have any questions on the year-end for 2020 before we continue? Okay. Hearing none. So, now we'll look at Fiscal Year 2020 review. That's the current year that we're in right now. So, we took a very cautious financial posture for Fiscal Year 2021, adopting a budget that is 13 percent smaller than the adopted budget for Fiscal Year 2020. I'm going to let Omar speak to cash revenue so far.

MR. NAZEM: Through, through October 13th, we were ahead of plan year-to-date by a nice margin of almost 11 percent, or $152 million. I don't want to, I want to, I want to caveat that number carefully, because when we set that number back in June, we took a very cautious view of the Fiscal Year, given the conditions in place, so the headline budget we adopted was for the year a 13 percent reduction against FY, the budget we had initially for FY20, so we're outperforming plan, but that baseline we're measuring against is considerably lower than what we had last year, was down by 13 percent. Now, if you look through October 13, you have year on year, forget budget, just cash on cash, we're down more than five percent where we were this time last year, $88 million, so we're doing better than we expected. We took that conservative outlook, but we are still down from last year.

MR. MURIN: Okay, great. Thank you, Omar. Now, going back, as well, on to the operations and maintenance. Fiscal Year 2021, Operations maintenance expense were re-certified by the city's budget office and they were slightly increased by $11 million, compared to what was adopted previously. That was a combination and is a net number of areas, smaller items, such as some collective bargaining things that were still pending for the agency, some adjustments that we coordinated with OMB on, so nothing significant in that end. On the capital commitment front for construction contracts, it's still challenging. The backlog of work that I just referenced for Fiscal Year 20, we're working through. We're expecting to be registering about $2.5 billion for this year, as well, and we think that's going to be, continue to be a challenge, given the constraints that the overall city is having with the processing of contracts and payments, and we're working closely with OMB and with the controller's office is making sure that we can get all those through as quickly as possible. However, it does mean, as we displace work from Fiscal Year 20 that moved into Fiscal Year 21, work from Fiscal Year 21 is being placed, displaced into Fiscal Year 22 and having a ripple effect out there, so that was the context of the earlier statement about, where we were talking with our regulators because given the constraints in our ability to manage the magnitude of all those capital projects, we're having to figure out how we can best balance those, to both assure that we're continuing to meet out mandated requirements, but also being able to do our basic work on state of good repairs, particularly out in the wastewater treatment plants and up at the reservoirs and the upstate water infrastructure, as well as in city sewers and water mains. I don’t know if, Commissioner, you want to add anything to that. I know it's been something we've been spending a lot of time on over the past few months.

COMMISSIONER SAPIENZA: No, I think you covered it well, and we've been having some good discussions with our regulators. No commitments yet from them, but those discussions are ongoing.

MR. MURIN: Okay. I'll pause again to see if the Board members have questions regarding any of those items?

CHAIRMAN CARNEY: None - -

MR. MURIN: Okay, hearing none, we're going to flip, flip over to slide six, and I'm going to turn it over to Jeff Lynch, Deputy Commissioner for Customer Service.

MR. LYNCH: Hello, everybody. I'm going to discuss the impact of COVID-19 on customer payments quickly. We've seen an increase in customer delinquencies since the beginning of the pandemic. Receivable delinquent, receivables delinquent by 180 days or more have increased by about 20 percent through the end of August, or by about $105 million compared to the year before, which includes 15,000 accounts becoming newly delinquent past the 180 day mark, compared to the previous year. 10,000 of those newly, long-term delinquencies are accounts that became delinquent beyond the 180 day mark after the start of the pandemic.

MR. MURIN: Thank you, Jeff--

CHAIRMAN CARNEY: Jeff, before you, how do we treat, what happens? When you're 180 days delinquent, what, how does the, how does DEP respond to that? What's the answer to how we treat with it?

MR. LYNCH: I mean, we continue, Chair, to work through payment agreements with people that are, with customers that are delinquent and continue to work through those. That mark is just a longer-term mark for when we have, when it's substantial. A 30-day notice, 30-day delinquency is not quite the same as 180 days. 180 days signals to us there's a more serious issue with the customer, and we do, do outreach to them, as well, to make sure that they're paying - - the best that we can.

CHAIRMAN CARNEY: But Jeff, what does that mean? We do outreach to them, but how, how do you treat with that? If you're 180 days delinquent, what, what do we do? I mean, are these bone crushing - - letters, or are we, and how do we determine whether or not a delinquent customer, 180 days is struggling to do the right thing or whether that customer is just blowing it off? How does that, how do we do that?

MR. MURIN: If I may add, Mr. Chair, one of the things that we have, you highlight a problem that we have, which is that, short of us sending Dunning letters, and short of a lien sale, which is actually when a person has reached a more extensive time period having past due bills, past 180 days, we have very little options. We don't have the ability to do credit blemishing. We don't have the ability to turn these accounts over to collection agencies, and particularly in this time and place, I don't necessarily say that's where we want to be anyway. I think we are, though, very concerned, and this is one of the cautionary things that we are worried about going forward, is if the economic downturn continues, we could be seeing a significant growth in the amount of these delinquencies, and the other option that we then have is, as delinquencies grow, it just means that those good payers have to make up the balance, and it could lead to us having to look for a larger rate increase when we come to the Board in the spring. At this time, and I think we want to make clear is, when we talked back in June, there was some discussion about us having to consider a mid-year rate increase. We're not at that point. We think we're still financially sound, that we're going to be able to get through Fiscal Year 21 in a very reasoned manner. However, it is something that we're, and why we're doing this update for the Board is that we think there are concerns and we want to be watching this very closely, and we think it is going to have potentially implications for when we do come in the spring and are talking about what the rate is going to look like for Fiscal Year 22.

CHAIRMAN CARNEY: So, let me ask you this, then, and as well, what I would love to get is a regular update of how that number is increasing.

The 180 day delinquency number, and 20 percent, is a big number. I don't, I don't want the Board to be surprised if that, if you understand where I'm going, - - to know--

MR. MURIN; Absolutely, absolutely. And just so you know, we'll structure, between Omar and Jeff, we have regular reporting that we do internally that we could share with the Board, as well, and we could give that data to you, so that you could see it and be, you know, keep apprised of it.

CHAIRMAN CARNEY: And would you, is that a monthly accounting that you all do? Are you in touch with each other every 30 days, every 15 days? How often do you look at that?

MR. MURIN: I mean, we track it as much as daily if we had to, but I don't think we, we're not quite at that point that we need to be doing that, but we would be able to, I think probably monthly would be the best way to start and that--

CHAIRMAN CARNEY: And that would be terrific, Joe, if you could do that. If you could just let us know if Omar could send to us, because you are sending it to him, a monthly update on what those numbers look like, that would be, and going forward, beginning at the end of this month, and then November, December, January, if we could see those numbers, I'd be very grateful.

MR. MURIN: Certainly.

MR. NAZEM: Absolutely.

MS. SHAW: Wait, this is Arlene. This is Arlene. Can I just add something there. I'd love to see the breakdown of what the 20 percent is, like, you know, I'm probably, I'll probably get crucified because I'm asking about landlords and not renters, but it would be interesting to see sort of what, and I don't know if you have that granular detail, just given the way that the water rate is structured, it'd be interesting to see sort of what the breakdown is with respect to who is in delinquency, whether we're looking at single family homes versus multi-units. You know, I just, because I'm sure the impact of the eviction moratorium, the rent not being paid may have some flow-through, especially for smaller, smaller property owners, so I don't know how granular the detail is with respect to those delinquencies, but I think it's also important to understand which of our customers are being hit the hardest, and in that 180 days, right? Because I think that there's just going to be some profound impact from the, from the rent moratoriums or the non-payment of rent that we should really be kind of considering when we're looking at this.

CHAIRMAN CARNEY: Great question, Arlene. Thank you. That's terrific.

MR. MURIN: And Arlene, we could get, let us go back and we'll see what we can get, but we do have that detail. I don't want to suggest it's not there. I think it's just a matter of how, how much effort it takes and when, how quickly we could get that turned around on a monthly basis. I don't think it should be a problem, but we'll, we'll structure something and run it by the Board and see what level, how much or how little is going to be productive for you to be able to go through and digest and work with.

CHAIRMAN CARNEY: Thank you.

MS. SHAW: Thank you, because what I'm concerned about, I think what I'm trying to understand is, you know, I think, is understanding what raising rates means to the small, you know what I mean, the smaller land lords and individuals homes, and you're sort of talking about maybe people who are on fixed incomes. You know, just that, that real, true middle class that exists in New York. Just understanding how all of the flow-through is impacting them, especially if you're a small landlord, so whatever you think sort of gives that level of detail would be a--

CHAIRMAN CARNEY: We'd like to see. Thank you, Arlene. That's terrific. It's a great point, and the people on the phone get it. Thank you

MR. MURIN: And we could definitely get you all that, that information, in some form. We'll get a few scenarios together and see which one is going to work best for all of you, based on your review. Okay, any more questions from the Board before we move on? Not hearing any, I'm going to move to on to slide seven, and I'm going to turn this over to Olga Chernat, the Executive Director for the New York City Water Finance Authority.

MS. OLGA CHERNAT: Hi, thank you, Joe. Good morning everyone. Let's talk a little bit about the capital program funding, and as Joe said, I'm on slide seven.

CHAIRMAN CARNEY: Okay.

MS. CHERNAT: As many of you know, the scheduled program is predominantly funded with proceeds of long-term bonds. The Water Authority has approximately $31 billion of debt outstanding, and we annually issue about a billion and a half of additional bonds, and this does not include refunding bonds, which the Water Authority issues through finance its outstanding obligations to savings when the market conditions allow. Obviously, because of that, the amount of refunding bonds we issue varies from year to year. Given the size of our outstanding debt portfolio and the size of the system's capital program, capital market access and capital market health are very important for us, both for program management of the Authority's existent portfolio, as well as to raise funds to fund capital expenditures of the system. So, when the capital markets were disrupted in March and April of this year in response to the global pandemic and the efforts to contain it, this was an utmost concern to us.

You can see this disruption on charts on slide seven in the form of the sharp spike in interest rates. Basically, the rates essentially tripled in a very short amount of time. At the time, it was seemingly overnight spike.

CHAIRMAN CARNEY: Wow. Wow.

MS. CHERNAT: Fortunately, the Federal Reserve and Treasury stepped in with a number of liquidity and lending programs, as well as market stabilization initiatives. The Federal Government also passed a $2.2 billion CARES Act and other stimulus programs, and all of these efforts helped the markets to recover. The chart here is a, is for a 10-year bond, but it's still representative of the market conditions in general, and you can see that, starting in June, early June, the market has largely recovered, although conditions for certain sectors, which were hit by pandemic especially hard, such as airport credit, for example, remain difficult. We are actually lucky because we are an essential service provider, so our credit was in, and I will talk about this a little later, is holding strong so far. Since the pandemic -- measures have been put in place, the Water

Authority was in the market twice. In June, we sold about $700 million of bonds, $270 million of which were refunding bonds, and more recently, in September, we totally $650 million of bonds, and more than half that issue was refunding bonds. The current interest rate environment continues to be very favorable to the issuers, relative to historical conditions. The borrowing rates continue to stay low. However, the market is much more focused now on credit quality, and we actually saw this in our September transactions. Our spreads were slightly wider, relative to our pre-COVID spreads to benchmark, due to increased focus on New York's specific credit issues and the high levels of New York issuance in the market at that time. The spread widening was even more pronounced for other city bonds that priced around the same time as our transaction. The market concern with the credit quality was justified because earlier this month, Moody’s actually downgraded rates on the city's general obligation bonds one notch, taking it down from Double A one to Double A Two, and even after the downgrade Moody’s capped its negative outlook on the city's bonds. Moody’s also downgraded its rating on the state, New York State Jail Bonds by one notch, from Double A Two to Double A Three. So far, all three ratings on the Authority bonds have been confirmed and we have stable outlooks. However, the term of the rating reports is very different now, and I would say that, for the most part, the rating agencies have taken a bit of a wait-and-see approach. They're very closely monitoring the impact of the pandemic on the state of the economy. They're also looking at how our revenues are performing, and at our overall budget. They're paying close attention how conservative we are in our budget assumptions, and how the system is coping with the added pressure of the rental payments to the city, and how it is ultimately translating into debt service coverage levels, so--, yes?

MS. SHAW: Just on that point, sorry, this is Arlene. I've been having my own issues with the rating agencies recently. So, question, do you feel like, in your opinion, and if you can't answer it, that's fine. It's more idiosyncratic to the approach the rating agencies are taking due to the lack of visibility on COVID, or do you think, just listening to the fact that we kind of had, we were on budget, we're on plan, do you think the downgrades are more idiosyncratic to what they can't predict or because of actual performance of the agency?

MS. CHERNAT: Well--

CHAIRMAN CARNEY: I’m not sure, I'm not sure I understand the question, if you forgive me - -

MS. SHAW: Yeah, because what I've been finding, yeah, because what I've been finding is the rating agencies are kind of taking positions because they don't know what's happening with COVID--

CHAIRMAN CARNEY: Okay, I got it.

MS. SHAW: --but they're being a bit conservative--

CHAIRMAN CARNEY: I got it, I got it.

MS. SHAW: --but it may not be as a result of decreased financials or decreased performance, because to hear that we're sort of at-plan, but-

CHAIRMAN CARNEY: Right, I hear you. You're asking the question whether or not they're simply being cautious.

MS. SHAW: Right.

CHAIRMAN CARNEY: Are they backing off and waiting to see what's going to happen? Got it, got it.

MS. SHAW: Yeah, versus there are some true financial concerns with the system over all.

CHAIRMAN CARNEY: Got it. Thank you.

MS. CHERNAT: And I would say that it's probably a little bit of both, right? And because no one knows how the situation with the pandemic will develop and what the ultimate impact will be, so they are definitely much more cautious in their analyses, and their approach, but they're also looking at the hard data and the, the big factor in the stability in our ratings is they're budgetarily conservative, and Omar talked about this early in the presentation that our assumptions, especially on the revenue side were sufficiently conservative, and we actually, you know, basically come in at the end of the fiscal year very close to projections, and that's a big positive for them. There is definitely concern with the rental payments. The city, as you know, didn't ask for any rental payments over 17, 18, and 19. The system did pay a rental payment to the city as requested in Fiscal 2020, and that's another sort of on one, on one hand point pressure, pressure point, I'm sorry, and on another hand, I think that it speaks to the system's, there is some budgeting practices that it was able to make the payment so late in the year. We obviously, no one, of course, saw it coming in the beginning for the Fiscal 2020 when the budget was put together, and we were able to absorb it in our budget. So, that, you know, that was, you know, another testament to the strength of our budgeting processes. But, yes. You know, I think there is definitely a little bit of both in the approach that the rating agencies are taking, but we can add the data so far, the data supports the stability of the ratings. There are more concerns regarding this year and the next couple of years because the financials margins are definitely narrowing. So, to sum up, I would say, I would probably echo the cautionary words of the Commissioner that, you know, so far so good, but by no means we're out of the woods yet, and there is definitely kind of more pressure and scrutiny on the ratings.

And that cautionary note actually probably applies to the market in general, and the March and April market this last time, we've recovered from, but that's not to say there will be no unforeseen market events going forward, and that obviously remains a big concern for us.

CHAIRMAN CARNEY: I think, Olga, that I, you're the expert here. I am not. It's Al Carney, but I think that the November elections will determine to a large extent where the rating agencies will go with respect to outlook, and I'm worried about that because I don't know what it means. But I, and another part of my life, I have to pay attention to that, and I, and I'm concerned that the, the outcome of the election is beginning to, to look directionally predictable. I'm not sure that's correct, but the rating agencies I think are sitting back and rating to, to see what happens before we see any, from their part, any real predictability. But fingers crossed, we'll see where it goes.

MR. GOLDIN: Mr. Chairman, can I just add a question and a, and a comment on the financing issues?

CHAIRMAN CARNEY: Yes, sir. Of course.

MR. GOLDIN: Thank you. First of all, thank you, Olga, for all of your hard work and your clear presentation. Very much appreciated. One comment that I have, and it is too preliminary, I think, for this to be in the form of a question, but it's a comment and it's something that I think is worth paying attention to, and it relates to Arlene's question about the sort of general pessimism and whether that creeps into ratings for instrumentality that have more steady cash flows--

CHAIRMAN CARNEY: Somebody, somebody's on, somebody on the phone has a, you're moving papers on a desk, and we can hear it.

MR. GOLDIN: So, so, thank you, Mr. Chair. This question about whether entities that have a relatively more secure flow of revenues may be adversely affected by a general sense of concern about COVID in the financing world, and the point I wanted to make, which is, which is not a question at this point, because I don't think that the issue is sufficiently ripe to raise a question, but I just wanted to make sure that you and your staff are keeping track of it, is something that has come up in a different context and, namely, that is the question as to whether the revenues issued by, sorry, the revenues to which authorities and banks, - - remote authorities at that, are entitled, can be, can be grabbed if the main political entity is in, is in financial extremist, which ends up linking the two, the fates of the two, even if there are pledged revenues to support one entity, as opposed to sort of general obligations, considerations for the other. And in that regard, I just mentioned that the authority, I hope, will take notice of a recent decision by Judge Swain of the Southern District of New York, who's sitting by designation in the District of Puerto Rico in connection with the bankruptcy of the, the filing of the Commonwealth, I should say, under pro mesa [phonetic], and Judge Swain has ruled that, that the funds, that would otherwise be, that would otherwise flow to the Puerto Rico Highways and Transportation Authority and the Puerto Rico Infrastructure Financing Authority are not subject to a lien when they are, at the time they are collected by the main polity, by the Commonwealth. And therefore, that creates a lot of interesting and complicated issues. At this point, it's a District Court ruling. It's on appeal before the First Circuit and I do not know that the, the case is being brought by bond insurers who are, who have insured the revenue bonds because they have not been permitted to have a stay, the automatic stay lifted so that they can go after those revenues that would otherwise be attributed to those agencies, and to which those agencies would otherwise be entitled, and so I just ask that, that the folks, the relevant folks at the Authority just make sure to keep track of that and think about that and think about how that might affect any disclosures that might need to be made. I realize it's in a, it's in a different jurisdiction, although it's by a judge who normally is in the Southern District of New York, but it obviously has a, will have significant consequences in, for special revenue bonds in, in other jurisdictions. I don't know what those are, but I just wanted to make sure that, that's on the radar screen of the authority in terms of what, what's going on in the market. And that's just a comment. I don't expect any answers on that because it's a very recent ruling, and, as I said, it's on appeal and it's in a different court, but I just want to make sure that there's focus on that. And then, the question I want to ask is--

CHAIRMAN CARNEY: Jon, Jon, it's Al. It sounds like that's a question that should be posed to, to the Senior Legal Counsel for the Water Finance Authority. He or she is in a far better position than those of us on this call to understand the significance of, of your, it's not a question, actually. You're right. Your comment, but maybe Olga can put you on with somebody who, or maybe it's Ms. Cohen. I, I don't know the answer to that. I don't know who the chief legal counsel is for the Water Finance Authority, but it sounds like your comment is one that should be raised with that person, and then, later on, there, there can be, there can be conversation about it. Does that make sense to you?

MR. GOLDIN: Well, at this point, I don't have a question. I'm raising it--

CHAIRMAN CARNEY: I, I know, it's a comment. I get it. I get it.

MR. GOLDIN: --so that Olga's aware of it and can make sure relevant people are keeping track of it. That's all.

CHAIRMAN CARNEY: Okay, cool. Cool.

MS. CHERNAT: And, and that's a - - comment, bankrupt - - opinion and bank - - excuse me, of the system is a big factor in our ratings, so this is definitely something that we are tracking, as well, and we, we have both our internal legal team, as well as our co-bond council team advising us on these matters.

MR. GOLDIN: Great. Thank you so much. I just wanted to make sure that the, that there was a focus on it, especially when you noted that the city's rating had been changed and our hadn't, and, and we obviously had historically thought of the, and I assume continue to think of the, the water bonds as bankruptcy remote, but this obviously introduces complications, but I just wanted to make sure that--

CHAIRMAN CARNEY: Clearly.

MR. GOLDIN: --folks were watching it so that the right disclosures could be made at the right time. The question I had, which is on a different track, which related to the amendment of the, of the certificate with respect to the rental payment is really just whether we can ask, and whether we can expect from the Water Board staff going forward, who do such a great job of preparing materials for us and keeping us informed in general, that unlike in the past couple of years, that when, if and when the certification as to the funding requirements to the city are amended, that, that, the amended certification be circulated to the Board promptly upon receipt--

CHAIRMAN CARNEY: Immediately upon receipt, absolutely. Absolutely.

MR. GOLDIN: That was something that in the last, in the last fiscal year, we did not find out about until the subsequent year's rate hearings because of a comment by, by an interested part, and this year, I, I understand that shortly after our, just from the packet that we've gotten, I see that shortly after our rates were set, there was an amendment to the certificate. I would just request that going forward, in the event of any kind of an amendment, that it be circulated, that the amendment be circulated forthwith to the members so we're aware of, of what the allegations are.

MR. NAZEM: We can do that, Jon. That's not a problem. We'll make the Board promptly aware upon requests or revised documentation with respect to the rental. And I apologize for the delay in notification last time. We'll do it promptly going forward.

MR. GOLDIN: Thank you, Omar. Appreciate it.

MS. CHERNAT: And that actually is a perfect segue into the rental payment obligation, which I guess Joe will cover, and that's on slide eight.

MR. MURIN: And that's, thank you, Olga. You touched on a lot of the topics that were bulleted on the slide there. What I would point to is, start with bullet three, which, as you know, there were no rental payment requests back in 2017, 2018 and 2019, but due to disruption of, of COVID-19, the city did request a rental payment of $128 million for Fiscal Year 2020, and that is incorporated in the financial statements that is in front of the board for review now, and they have requested and received, or are receiving the $137 million for Fiscal Year 2021. These amounts were about half of the allowable amount of the rental payment, according to the lease. These amounts, as Jon just pointed out were, came to us sort of late in the game, so they were not part of the Board's budget adoption previously. The Fiscal Year 2020 payment was funded using debt service savings, pre-paying less debt than in past years, and by ending the year with a smaller cash balance. The Fiscal Year 2021 rental payment will require amending the Board's budget, which is going to be, is before the Board for today's consideration in one of the resolutions. And I think as we discussed yesterday during the Audit Committee for the Joint Audit Committee Meeting, there is the disclosure note that the 20 amount is in the financial statement. The 2021 is disclosed, and you know, I think as was discussed with the auditors, there is the degree of probable and estimable constraint in terms of predicting or projecting what any future rental payment may or may not be like. At this point in time, we have no indication that there is going to be additional requests from the city or, you know, any more of the rental payment for Fiscal Year 2021, but that's not to say that it still is not out there as a risk, and I think that's something that Olga has highlighted and also has been noted by the rating agencies, as well. I'll pause at this time to, yeah?

MR. FREED: Joe, yeah, this, this is Adam Freed. Quick question. As you skip a couple slides ahead and as you're projecting a need for a water rate increase next year, wondering how much of that increase, how that compares to the increase of the rental payment of $137 million. Kind of what percentage of the projected increase that's needed to meet our needs can be attributed to the rental payment?

MR. MURIN: I know that we also do have the, the agencies, or the system's rate consultant Ed Marcus at Amelock [phonetic] on. I don't know, and I'll, I don't like to put Ed on the spot like this, but I will, and Ed, if you don’t have an answer, we can always circle back for a response.

CHAIRMAN CARNEY: No pressure, Ed. No pressure at all.

MR. ED MARCUS: I was just clicking to try to find the latest model very quickly, but if you don't mind, I will take Joe's suggestion, and if we could get back to the Board members, I'd appreciate that.

CHAIRMAN CARNEY: That's perfectly fine. Thank you very much.

MR. FREED: Yeah, that's great. And that'll just, for me, just to make sure we're aware as a Board, the public's aware of, and others that this is a big factor.

MR. MURIN: Yeah, definitely. Thank you, Adam. And unless there's any more question on the rental payment or on Olga's presentation, I'm going to move on to slide nine? And this I'm going to turn over to Jeff Lynch again.

MR. LYNCH: I'll do an update here on the lien sale for this year. Since 1996, DEP and the Water Board have participated in the city's annual lien sale, secured by delinquent water and property tax bills, which generate as much as 10 percent of the Board's annual revenue. It began the, the pre-sale notification for this year's lien sale in February. As many of you know, it's been suspended three times at this point, first in April, then again in September, and then again in early October. I apologize for the, it says November here. The new date and the lien sale is November 3rd right now and it's been, again, postponed to provide additional customer relief in light of the pandemic. Additionally, the current lien sale authorization expires at the end of this, this calendar year, so as it stands right now, we don't have authorization for a lien sale in calendar year 2021. The current expectation is that the lien sale will be finalized during this calendar year, but, but again, given the uncertainty on the economy and due to the pandemic, we have no assurance that the sale will definitively occur before the end of the year, and while we certainly are going to pursue a reauthorization for next year, we, there is uncertainty as to whether that will be reauthorized for the, the next fiscal year.

MR. MURIN: And if I may, I'd like to add on to what Jeff had said. This is, again, one of the cautions that we're being very aware of, because as referenced at the very first bullet, you know, we have not had a situation where we haven't had a lien sale since 2007, and back then, when we did have the loss of a lien sale, that was, I believe, the last time we had to contemplate the, the issue of the possibility of doing a mid-year rate increase. Because, the immediate impact would not be felt in Fiscal Year 21, but if we do not get a reauthorization of the lien sale and it goes on for any extended period of time, that reference point in the first bullet of where it could be an impact of as much as 10 percent of our revenue being lost due to what we already highlighted, which is the growing level of delinquency in payment. And that's very, very concerning to us, because as I also noted before, the lien sale is our most productive enforcement tool we have at this time, and it's a very constrained situation. Right now, we want to balance our responsibility to provide all of the residents and our rate payers with the vital services and keeping that as economically viable as possible, but it's also critical that we do collect the revenues that are essential to support both the operations, as well as the capital program and the debt that's necessary for the capital program, so this is, this is very, very concerning. We think we're going to be working closely as the administration with the City Council and be able to get that, but it's a very difficult point right now, as we can all understand, by elected officials to want to meet the needs of their constituents and not, having to be, imposing harsh, what some may perceive as harsh collection measures on at risk home owners and small, small property owners. I'll pause there for any comments, questions from the board.

CHAIRMAN CARNEY: Joe, it occurs, it's Al. It occurs to me that the Board needs to be aware of, how shall I, of the measures that we take, the measures we undertake to satisfy both sides of that equation. On the one hand, we're talking about water, and on the other hand, we're talking about revenue. I, I recognize that this is a difficult time, and the COVID madness has taken us all to very, very difficult places, but I would like for the Water Board what measures you institute, what measures the team must institute in order to satisfy both sides of the equation, and I've not paid a lot of attention to that, but it's becoming more important to me, as I talk to people in New York who are having huge financial difficulties. Not, not our, not our fault, but, but it is important to understand, I think we need an ongoing understanding of, of how we are treating with the, the need to collect the dollars, and it's essential that we do that. I get it. From people who are just unable to pay. I get it, but can we spend some time, will you and Omar spend some time with us on the phone next meeting, we'll call one a special meeting if we need to, talking about how we're going about parsing those decisions as best we can.

MR. MURIN: Oh, definitely, Mr. Chair. Definitely, and I think it's a very relevant, and you're right on, on target in terms of what we're grappling with here, in terms of balancing, you know, keeping, keeping the rates affordable while also being able to maintain the system, and I, what I want to add is that it's very, when you have a, such a large operation where we're running, you know--

CHAIRMAN CARNEY: Sure, sure.

MR. MURIN: --14 wastewater treatment plants and, you know, operations all through up state. The operations and maintenance becomes a very hard area to say--

CHAIRMAN CARNEY: Sure.

MR. MURIN: --that's where you can find savings. We are looking at that, as we noted earlier on. Then you're really in a difficult situation of having to them balance it predominantly on the capital program, and that means deferring or cancelling critical projects, or mandated projects as we've been talking about, as well, in terms of working with our regulators, and we're very wait-full, as well, for what's going to happen post-November. There's been a lot of talk in both sides of the aisle about an infrastructure program that would hopefully go towards, you know, critical water and sewer--

CHAIRMAN CARNEY: Sure.

MR. MURIN: --wastewater operations, as well. The short answer is, we can engage with you and make sure the Board is fully apprised as to what some of the decision points are and how we're going to go through that. I think the other thing, too, and I think what Jeff is, what he could speak to is the, the billing system, which I think we also want to update the Board on, as to where our status is with that. I don't think we're ready for it at this meeting, but that could be a follow-up meeting, as well. So, Jeff, if you want to talk a little bit about that.

MR. LYNCH: Well, and I was just going to touch on quickly, part of what, what the chair has raise dis how we work with customers here, and I think we, the, the extension of the lien sale has allowed us to do a great deal more of outreach directly to our customers.

CHAIRMAN CARNEY: Okay.

MR. LYNCH: The notices, the robo-calls, we worked with, actually, for the first time, worked with City Hall and the, the finance department to do some live calls to folks that were not as responsive to the, to the mail, email and, and robo-calls.

CHAIRMAN CARNEY: Sure.

MR. LYNCH: And we've done virtual events, as well, virtual events where we do presentations and, with finance department, walk through the issues and refer people to, to our agents that are waiting to work through our payment agreements, so we've been very aggressive with that. Actually, we, we've been able to work out, this year, because of the Extension, we have actually been able to work out a higher percentage of, of the, of the accounts receivable collect--

RECORDED VOICE: This meeting is being recorded and/or transcribed.

CHAIRMAN CARNEY: Okay.

MR. LYNCH: Additionally, as many of you know, we do, at the recommendation of the mayor, had lowered the interest rates for this, the first quarter of this year to 3.25 percent and five percent for the year. Folks are coming and getting payment agreements from us are in that category, but they also created a special zero percent category for only the first quarter of this year for folks that have a documented COVID hardship that we're, and, and the Finance Department verifies that for us, and then we, we apply that zero percent for the first quarter. So, there has been a, an aggressive outreach to customers. We've worked a lot with electeds and the extended lien sale window to resolve payment agreements, and I just, I would remind you that the payments agreements have, are 10 year agreements.

CHAIRMAN CARNEY: Yes.

MR. LYNCH: There's zero down payments, so again, if somebody's a single family homeowners or somebody owes, owes $1,500, that's again extended over a 10-year period with zero percent down in, in most cases, unless they've already had a payment agreement and broken it. There are a lot of things we're, we're doing on this front here, as well Chairman, and we'll also provide an update on the new billing system in upcoming Board meetings.

CHAIRMAN CARNEY: And Jeff, don't, don't misunderstand, I know how hard you're working to, to, it's an equilibration. I mean, you're, you're trying to figure out how best to do what, what's correct for both the system and for the rate payers. I'm real clear on that, and grateful for, for your expertise. Just want to make sure that you know and that staff knows that, no matter how difficult you think this is when you're in your office or at your home and looking at your computer, this, this time in New

York's history is horrible for so many people. To the extent that we can figure out how to be more accessible and, and not necessarily less demanding, but, but more understanding of what it is that the, how people are suffering right now, then we need to figure that out, if we can. If we can. The end. I'm sorry, I, just I've had a couple of experiences in the last two weeks that just, I can't, I had no idea how, how much people are, are suffering right now in New York, and hospital situations, sitting in emergency rooms talking to people who are, nobody raised water as an issue, but money is the issue, and we are, we just have to remember to stay aware of those folks who are at the bottom rungs of the ladder, if we can. That's, I'm sorry, I get a little carried away sometimes. Forgive me.

MR. MURIN: No, thank you, Mr. Chair. And we definitely want to talk about those types of measures that we can take, because we definitely think that there are other things that we can be doing, and we want, and we want to--

CHAIRMAN CARNEY: And I know you're working hard on it, Joe, and I know you're coming up with solutions, but as I said, it's an equation about water on the one side and revenue on the other, and we have to figure it out, but thank you for trying. Thank you all for trying.

MR. MURIN: So, now, moving on to slide 10, and I think Adam had sort of jumped ahead a little bit, but it touches on water rate projections. As of right now, the system's current projection, and I want to emphasize this is a projection for next year's water rate increase is 6.1 percent. This estimate reflects an increase from the projection of 3.8 percent that we previously had for Fiscal Year 2022 that was in place prior to COVID-19 pandemic due to the reduction of the Board's revenue base as, one, the result of the pandemic, as well as the Board's decision not to increase water rates in 2021, so we will, you know, I want to remind that the, I think the last projection for Fiscal Year 21 was 3.8, which was deferred and to, with the topic we just had, in light of the COVID and affordability, I think we made the, the Board made the wise decision to defer any rate increase for Fiscal Year 21, so this is kind of a catch up, but it's a little less than two of the rates combined, and it is, I think, an objective we'll work to try and keep this down, but I also do want to caution that some of these factors we're talking about could push this higher, as well, so we do want to be aware that there's an upward risk on this, as well. I open the floor--

MR. GOLDIN: Thank you so much, Joe. A quick, yeah, I just had a quick question on that, and I appreciate the Chair's comments on all the really hard work on the part of the Water Board staff and DEP more generally. What, what do we anticipate that 6.1 percent amounting to in absolute, rather than relative terms. How much, how much of a gap, ballpark, are we talking? And I'm not asking for specific numbers, but do we anticipate are we going to need to close by virtue of, of that ballpark 6.1 percent increase?

MR. NAZEM: If you were to project, I mean, where are, if you were to project where we are versus planned with the outperformance, you know, divided by the full year, it would be in the ballpark of a $200 million revenue pick-up the rate increase would work out on in projected base. That would take you, let's say you came in - - four with the outperformance of 3.6 on the operating revenue side. Now, remember, we were doing 3.8 two years ago, so it's still clawing back to where we were, but we work on this. If the outperformance picks up, it'll be worth, in the ballpark of $200 million.

MR. GOLDIN: Thank you, Omar. And the one other question I have, I don't know if it's for you, but it may be, as well, is what does this project in terms of what the system's lease obligations will be for the, for the prospective year?

MR. MURIN: You mean for the rental payment, Jonathan?

MR. GOLDIN: Yes.

MR. MURIN: There, the assumption is that with what the, what we paid for Fiscal Year 20 and 21 is the end of the lease increase, any rental payment, so there is that risk is that if there was that request for either an increase to 21, 21 or a request for 22, that would have to be incorporated into and would impact this rate or out-year rates.

MR. GOLDIN: And, thanks so much. I would just say that this is something that came up in the Joint Audit Committee Meeting, and I would just mention it here, as well, that, that I hope that we determined along with our auditors and rate consultants, as we do that budgeting, what the right way to treat that potential liability is, especially given that it has now changed in mid-course for two years in a row, how that ought to be treated for accounting purposes, and therefore what reserve, if any, ought to be taken and so, I just want to make sure that, that is factored into the budgeting process appropriately, and then obviously would be disclosed publicly for the purposes of our, the debt we issue and the like, but I, I do hope that, that conversation, and expect that, that conversation will involve consultation between the authority and the Water Board and will hopefully also include the outside auditors to get their perspective on what the appropriate treatment is for budgeting purposes going forward.

MR. FREED: Yeah, and this is Adam. I would just echo--

CHAIRMAN CARNEY: This is Al. I'm sorry,

but Jon, thank you very much for raising it. I think that the matter has been raised now with the outside auditors. I believe that the independent auditors are aware of the circumstances that you are raising now, and I think they have opined, at least I'm told that they have opined, with regard to the sufficiency of the reserves that we have taken, that we will or will not take, depending entirely on their point of view, I think they may need some more time to think through that. Happy to have that conversation with you, Jon, whenever we can. But I, I think the auditors are now aware and are looking at that matter. Adam, forgive me for interrupting.

MR. FREED: No problem, and I was just going to--

MR. GOLDIN: - - Mr. Chair, and I was just saying that, that was, again, this is a point that is a, not a, not ripe for a question at this point, just to--

CHAIRMAN CARNEY: I agree. I agree.

MR. GOLDIN: --be sure that the need to do that is on folks' radar screen because, if we think about the full extent of the potential liability on the rental payment, it sounds like that 6.1 percent could become a double-digit increase, and we're talking about, obviously, then, a much bigger number so I just, I just want to make sure that it's accounted for properly.

CHAIRMAN CARNEY: I think you're right.

MR. GOLDIN: I was not - -

CHAIRMAN CARNEY: I know, and Joe's going to--

MR. GOLDIN: - - doesn't require a response right now.

CHAIRMAN CARNEY: Joe's going to make sure that doesn’t happen, Jon.

MR. GOLDIN: I sure hope so.

MR. MURIN: I will make every effort. I can't promise anything right now. I will, if I may, before, Adam, you go, I think we had said previously during, because as the auditor said yesterday, there is the standard of estimable and probable that the, you know, we don't meet for having to be able to make it, as you said, Jonathan, to put a reserve or accrual for this. I think the point that we always strive to and I think Olga spoke to, is just keeping the financial statements as strong as possible affords us the capability of being able to withstand a - - contingency such as the rental payment or anything else that may come along. So that, I think, one of the things that gives us the financial credibility as a system, and the ratings that we're, we're getting from the rating agencies right now. Just an aside there, and I'll turn it now over to Member Freed.

MR. FREED: Yeah, thank you. I would just urge us, given the large size of the rental payments and the fact that, in the past two years, they've returned, and I would not expect a, a, you know, strong upswing in our economic outlook in future years as we deal with the economic fallout from the pandemic, that we just err on the side of caution as much as possible so we don't end up soaking up - - with even larger increases than even we anticipate or they anticipate, so just as we work with our auditors and work with our own budget analysis and rate consultants, I just urge us to be as conservative as possibly on the return of the rental payment, given the fact that we've seen it now come back twice, and we don't know what the next administration will choose to do or who the next administration will be.

MR. NAZEM: Absolutely, and thank you.

MR. MURIN: Hearing now more other questions, I will go to slide 11, and I think we touched on all these, you know, I won't read through each of the lines, other than go to the bottom line, which is the total projected expenses for the system that, when we adopted the budget, and this is part of the resolution in the Board's package, we were at a budget of $3.321 billion, and now the amended budget that we're, is for the Board's review is $3.315 billion, and this gets back to, I think, the previous point that Omar had said, if we look at the note at the bottom of the slide, that for Fiscal Year 20, because it was $3.816 billion, so it is still a budget that is significantly below where we were just back a year ago, and it's through our, you know, management of the financials, of the system - - the DEP, the Water Board's side and the Water Finance Authority side that we're able to still keep up the regular levels of operation and maintenance in the system going along strongly. Any questions before we go to the conclusion for this presentation, which I'll turn over to the Commissioner?

COMMISSIONER SAPIENZA: Thank you, Joe, and thanks to all the Board for their input. I'll make this really brief because we've discussed all of these bullet items in detail during the call, so as we said, you know, compared with revenue projections, we did hopefully see the worst of the pandemic in the spring, and Fiscal Year 20 finished close to budget, as we said, and 21 is ahead of the reduced estimates. We talk about the rental payment and extensive variance, but overall change so far is a modest $6 million reduction through total revenue requirement. Status of the lien sale and delinquent water charges, as we talked about, remain a bit uncertain, so we'll keep an eye on that, and then finally, as businesses and offices, schools gradually reopen, it's our expectation that the economy will improve and household incomes will go up and payments will go up, but again, there is that uncertainty as, when that will, how long it will take, so thank you.

CHAIRMAN CARNEY: Thank you. Are we at the next--

MR. MURIN: Yes.

CHAIRMAN CARNEY: --the next agenda item?

MR. MURIN: Yes, I think we're at the resolutions, Mr. Chair.

CHAIRMAN CARNEY: Thank you very, very much. Just, this is item five on the agenda. The, the Joint Audit Committee of the Water Board and the Water Finance Authority met yesterday, received a terrific presentation from our new auditors, Grant Thorne [phonetic]. Their first completed audit for us. They have given us an unmodified opinion, a so-called clean opinion. Congratulations to Bob Baldacci [phonetic] and his staff. Terrific job that they've done. There are no material weaknesses in the financial statements. The auditors were very complimentary of both the Water Finance Authority staff and also Omar Nazem. And Omar, thank you very much for all the work that you have done in support of the Water Board's position with regard to the audit. We, as I say, it's a clean opinion. The Water, I'm sorry, the Joint Committee voted yesterday to recommend to the Boards of both the Water Finance Authority and to the Water Board approval of the financial statements, and that is the resolution that's before us now. Adam Freed and Jon Goldin were both there yesterday. Do you all have comments about the meeting or, or about the audit?

MR. FREED: This is Adam, none from my perspective.

CHAIRMAN CARNEY: Thank you, Adam, Jon?

MR. GOLDIN: This is Jon, none. Same, same from my perspective, thank you.

CHAIRMAN CARNEY: Okay, thanks, thanks very much for both of you. So, barring other comments, what I would like to have from this Board is a motion to approve the financial statements, to approve them ultimately for release, as well. May I have that motion?

MR. GOLDIN: So moved.

MR. FREED: Yep, this is Adam. Second.

CHAIRMAN CARNEY: All right. Thank you both very much. Will you poll the Board, Mr. Rodriguez?

MR. RODRIGUEZ: Yes, sir. Yes, sir. Member Carolina, how do you vote on this motion?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Fernandez-Ketcham, how do you vote?

MS. FERNANDEZ-KETCHAM: Aye. Aye.

MR. RODRIGUEZ: Member Freed, how do you vote?

MR. FREED: In favor.

MR. RODRIGUEZ: Member Goldin, how do you vote?

MR. GOLDIN: Aye.

MR. RODRIGUEZ: Member Shaw, how do you vote?

MS. SHAW: Aye.

MR. RODRIGUEZ: And Chairman Carney, how do you vote on this motion?

CHAIRMAN CARNEY: Aye.

MR. RODRIGUEZ: Okay, the resolution has been adopted. Thank you.

CHAIRMAN CARNEY: Thank you, Mr. Rodriguez, and it has passed unanimously. Are there, the next agenda item is number six, the approval of the investment guidelines and financial year 2020 report. I, I don't know who gives that report.

MR. NAZEM: - - this is Omar. I, I can give the quick summary. The, the investment guidelines, there's no change from last year. In fact, there's no change in quite some time. The guidelines, it's short version allow us to buy conservative fixed-income securities. Even within the range of what's permissible, our practice for years has been to only buy short-term U.S. government Treasury securities.

CHAIRMAN CARNEY: Yes.

MR. NAZEM: So the least risky of the least risky. That hasn't changed. We don't see that changing. We did that in FY20 just as we did in FY19, and it was a less profitable investment in FY20. We still, we made money luckily. We made $6.4 million in investment income last year, which is the less than the FY19 number of $9.8 million. The, the major reason for that was the, we, we buy most of our bonds int eh second half of the year, and if you look at what the average yield was in second half of FY20 compared to FY19, it was a lot lower. It was about 0.6 percent on a short, one-year Treasury, compared to 2.4 percent the year before, which is about a reduction of 75 percent in the average yield. Now, the amount of investment income we got was actually only down by one-third, and the reason for that was, we had some capital appreciation on the older bonds we bought at higher yields that went up in value as the market yields fell. So, we were making less on the new stuff, but we had some new gains on the old stuff that offset a lot of the deterioration. So, 6.4 million was the number for FY20, which actually compares favorably, if you go back even further in history, it was just down from FY19. But that's just the summary. The portfolio made money last year, less than 19, more in line with prior years, and no change expected in what we're actually buying, which is those short-term U.S. Treasury securities.

CHAIRMAN CARNEY: So, we are voting on the, we're going to approve, well we're going to vote to improve the investment - -?

MR. NAZEM: You're voting to approve, both keep the existing investment guidelines in place for the next year, or for the current year, rather, and you're voting to accept the FY20 investment report, which is a schedule of the portfolio holding buys and sells and the investment income number, so it's a two--

CHAIRMAN CARNEY: Thank you very much, Omar. May I have a motion?

MS. SHAW: This is Arlene. So moved.

CHAIRMAN CARNEY: Arlene, thank you very much. Is there a second?

MS. FERNANDEZ-KETCHAM: Evelyn second.

CHAIRMAN CARNEY: Thank you very much, Evelyn. Mr. Rodriguez, would you poll the members?

MR. RODRIGUEZ: Yes, Member Carolina, how do you vote on this motion?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Fernandez-Ketcham, how do you vote?

MS. FERNANDEZ-KETCHAM: Aye.

MR. RODRIGUEZ: Member Freed, how do you vote?

MR. FREED: Aye.

MR. RODRIGUEZ: Member Goldin, how do you vote?

MR. GOLDIN: Aye.

MR. RODRIGUEZ: Member Shaw, how do you vote on this motion?

MS. SHAW: Aye.

MR. RODRIGUEZ: And Chairman Carney, how do you vote on this motion?

CHAIRMAN CARNEY: Aye.

MR. RODRIGUEZ: Thank you, sir. The motion has been, the resolution has been approved.

CHAIRMAN CARNEY: It has been approved unanimously again.

MR. RODRIGUEZ: Yes.

CHAIRMAN CARNEY: We are now at the 2021 annual budget. Is there a presentation or, I mean we, we've, we've seen a summary. Omar, is there something that you want to tell us about this?

MR. NAZEM: Joseph has actually already mentioned it, uh--

MR. MURIN: Yeah, the, the - - document is, it's page 11 of the PowerPoint for anyone following along, and then also, there's a detailed schedule, the kind of detailed numbers behind the resolution. That's in the online packet, as well as in member's packets. The blue and white page.

CHAIRMAN CARNEY: Yep. Thank you. Are there questions? Hearing none, may I have a motion, please to approve it.

DR. CAROLINA: So moved.

CHAIRMAN CARNEY: Thank you, Demetrius. Is there a second?

MS. SHAW: Arlene seconds.

CHAIRMAN CARNEY: Arlene, thank you very much. Thank you very much, Arlene. Mr. Rodriguez, would you poll the members?

MR. RODRIGUEZ: Yes, sir. Member Carolina, how do you vote on this motion?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Fernandez-Ketcham, how do you vote?

DR. CAROLINA: Aye.

MR. RODRIGUEZ: Member Freed, how do you vote?

MR. FREED: Aye.

MR. RODRIGUEZ: Member Goldin, how do you vote on this motion?

MR. GOLDIN: Aye.

MR. RODRIGUEZ: Member Shaw, how do you vote?

MS. SHAW: Aye.

MR. RODRIGUEZ: And Chairman Carney, how do you vote?

CHAIRMAN CARNEY: Aye.

MR. RODRIGUEZ: Mr. Chairman, the

resolution has been unanimously adopted.

CHAIRMAN CARNEY: Terrific. There is one more agenda item. It is a presentation, no Board action required, Water Demand Response in New York City during COVID-19. There are two people who are standing by to make the presentation. Please, you've got, you've got the floor, Ms. Licata [phonetic] and Erin Morey [phonetic]

MS. ANGELA LICATA: Thank you very much. This is Angela Licata speaking, and I'm glad you mentioned Erin Moorey. I would like to recognize the terrific work that she's done on this topic, along with Amanda Cashman on her staff, and Erin is going to jump in to underscore any of the points that I'm going to make today or to certain point out anything that I may gloss over. In recognition of all of the challenging topics that you've covered already his morning, I do want to just cruise through the material and hit the top notes for you. If you would kindly recognize that the water demand trends since the beginning of the pandemic have really been a great interest to us, so we have taken the time to really do a deep dive on this information, supported by our Commissioner Sapienza, and we wanted to give you a basic understanding of that information today. So, we are showing basically on slide two the overall demand or, if you will, customer consumption of our product, which is drinking water, from the period of March 1 to August, the end of August, and we do have September data, which I can cover a little bit later, but this is basically a volumetric from monthly trends that we're seeing as compared with 2019 data, and you can see that we have the redline, which is your 2020 consumption and 2019 is your black line. Roughly, we are fairly consistent overall on a volumetric basis, so nothing really disconcerting when you're looking at it from overall consumption. When you look at slide three, we are showing basically that the residential demand is staying fairly consistent with slight upticks, whereas our non-residential demand has shifted quite dramatically, so - - that our six-month total is basically balancing out because of the increases in the residential that are offsetting the decreases in the non-residential consumption during that period. So, moving to slide four, I'm sorry, slide four is a cover page. Please turn to slide five where you see that the meter billed residential demand increased an average of 2.8 percent, as we were just showing, and then you will just see, along the X axis, the customer classes and how they are utilizing water differently year-over-year from 19 to 2020. You can see that the largest gains were in the single family and two family users and that the largest losses, all the way to the right by about 10 percent for the mixed residential and commercial. Moving on to slide six, we are showing you a borough depiction of consumption, and you can see that the meter-billed residential demand decrease, driven by the single family declines, and that the greatest losses were in Manhattan, and there were certainly gains in the outer boroughs.

MALE VOICE: Oh, God. Oh.

MALE VOICE 2: Hello?

MS. LICATA: Okay. I don't think this is telling us a story other than one that we've known, but here is the information, and it's shown nicely on the graphics, so slide seven, we're showing you the meter-billed non-residential demand decrease of an average of 28 percent, year-over-year, and we are showing you the subsectors that gained or lost, generally speaking, these are losses, so you can see that the airports were down a tremendous amount, by about 48 percent. You can see schools and colleges, our universities are also down by quite a bit. I'm trying to think what else. Restaurants, obviously, so really, we're seeing these sectors with the largest decreases, and again, this is the six-month period, if you will. We have seen recovery, so the starkest declined occurred during the height of the pandemic, and with the reopenings, we have seen gains and recovery.

CHAIRMAN CARNEY: Ms. Licata, it's Al Carney. The, would you distinguish, help me understand the difference between healthcare and hospitals, just so I have a sense of, obviously hospitals are down minimally. Healthcare down minimally, but help me to know what those two things mean.

MS. LICATA: Yeah, the hospitals are usually private hospitals, and healthcare, I believe are, and Erin, please chime in, are more of the,

the offices and medical practices. Is that right?

CHAIRMAN CARNEY: Oh, I see. Doctor's offices? That sort of thing or, or, well, I'm sorry, why don't you all help me to know, rather than having me speculate.

MS. ERIN MOOREY: Yeah, I can jump in here, Angela. This is Erin Moorey. So healthcare includes, like, clinics and smaller outpatient facilities, whereas hospitals are the larger hospitals that we have in the city, yep.

CHAIRMAN CARNEY: Got it. Okay. Okay.

MS. LICATA: So, turning to slide eight, we thought it would be interesting to show the non-residential demand also, based on the meter-billed customers by borough, and again, you can see the trend is, the largest losses are occurring in Manhattan. However, there have been some large losses in the Bronx, as well, and that has mostly been as a result of industrial users. And slide nine--

CHAIRMAN CARNEY: I’m sorry, so industrial businesses in the Bronx, I guess the non-residential users in the three, in the Bronx, Brooklyn and Queens are all down an average of

25 percent probably. But what does that mean? Does that mean people in the Bronx, and in Brooklyn and in Queens, people are not working? These businesses are closing? These are restaurants and, and cottage industry type places? What do the number really represent?

MS. LICATA: Yes. That is absolutely correct.

CHAIRMAN CARNEY: Okay.

MS. LICATA: It does represent a potentially closed business.

CHAIRMAN CARNEY: Sure.

MS. LICATA: Or an operation that has scaled back and that the water demand at that location has declined. And again--

CHAIRMAN CARNEY: That's huge.

MS. LICATA: Yeah, they're big, big numbers.

CHAIRMAN CARNEY: Yeah.

MS. LICATA: But again, we're seeing a recovery, so we saw the steepest declines, and we're giving you a six months' average, but we have been somewhat impressed that there has been recovery with the reopening.

CHAIRMAN CARNEY: Okay. Well, thank you. It's a, those are tough number, but if there are, if you're seeing an upswing in the graph, if the curve has actually gone positive, then it, it amplifies the point I was making earlier, that people are, are just in trouble, but this is getting better, at least in those three boroughs. That' s a good thing.

MS. LICATA: Yeah, there has been some recovery, and I'm going to temper that with a little bit more sobering news from the summary slide, so you'll definitely have--

CHAIRMAN CARNEY: Okay, okay.

MS. LICATA: --something to take that away. Sorry to dampen spirits. So, slide ten, if you just bear with me, is really just a quick note about the non-meter-billed demand trends, so what we're seeing in our non-metered customers is that they pretty much mirror the meter-billed demands. Non-meter-billed residential demand increased at the same time the non-residential decreased. So, when I go to the summary slide, what I'd like you to walk away with is an understanding that the demand decreased sharply in mid-March through May and began rebounding in June, and there were even some moments in August when I think we were actually even above our

2019 demand. So, residential demand increased overall, and this is something that is significant, and I do think relates to something that you said earlier in the meeting, Manhattan being the outlier. The borough demand in single family customers in that borough certainly decreased, but the other borough customers on the residential side have increased, and we are taking the next step to understand exactly where those event occurred most dramatically. The non-residential demand--

CHAIRMAN CARNEY: This is a very interesting slide. The last point you make, increased residential demand is not necessarily going to increase revenue. That, that's an interesting conclusion. It makes sense, based on your bullet point, but I never would have gotten there, which is to say that the sectoral trends are nuanced, which is of course your title. It, it's, this is a very interesting slide. Thank you.

MS. LICATA: And that is essentially the point that I wanted to leave you with. So, we're going to be watching these trends very closely. We're working closely with Jeff and his team, and we're going to be sharing information back and forth, and we'll be able to update you on what we see as time unfolds.

CHAIRMAN CARNEY: Thank you. Your overview, your slide 12, I have just seen this for the first time. Forgive me, I have not seen this before. DEP's sustainable rate structure is a holistic rate study that will analyze water - -, yeah, that's, these two slides are very interesting. Thank you. Thank you for taking time to think these through and then to present them to us. And now I'll stop talking because this has already been the longest Water Board meeting I've ever attended, but thank you. This is, this is a great presentation. Thank you.

MR. FREED: And Angela, this is Adam. Thank you. This is really fascinating. And I'm still grappling with, and my head's whirling with the implications of what all this shows us about the patterns and the responses from the city economically, geographically and whatnot from the pandemic. I love looking at the sustainable rate structure analysis summary which is, as everyone on the Board and staff knows, is something that's really close to my heart.

CHAIRMAN CARNEY: Yes.

MR. FREED: Would love maybe at the next meeting, if we could dive a little bit more in depth on this, and the update on the customer billing system, because these two things are really intricately linked on what we can do with the findings of the rate structure analysis with how the billing system is designed, just understanding the timing of those, given that this is a three-year study, at what point can we anticipate results so we can begin thinking about, as we think about future rate structures and engaging the public in this, which is really important, to make sure that they're engaged in the analysis of the study that's going on as educating and engaging the stakeholders, who are ultimately paying the different rate structures will be critically important.

MS. LICATA: Absolutely, yeah. We're firmly committed to--

CHAIRMAN CARNEY: This is terrific.

MS. LICATA: --a robust public engagement process. Tomorrow will mark our kick-off internally, so we have been directed and we have really hit the ground running on this study.

So, absolutely more to come. Omar has already indicated that he would like a briefing for the Board at the next meeting, and we will certainly do so.

MR. FREED: Amazing, thank you so much for both you and Omar for knowing that I was going to ask that.

CHAIRMAN CARNEY: Yes, we all knew you were coming, Adam. We knew that you were going to be there. Thank you so much for engaging on this. This has been a terrific meeting. It has been a long meeting, but, but we've covered, and particularly, everything in this meeting was important, of course, but this last presentation was something that I will look forward to getting more information about. Adam, thank you for engaging on this, and I assume you will, you will encourage Ms. Licata to do what you need to have her do for the three-year study and somebody has decided that we should have John Phillip Souza on the, I'm sorry. I hope that everybody has a great day.

MR. FREED: I actually think that was Raymond Scott who was the, who orchestrated the Looney Tunes.

[laughter]

MR. GOLDIN: I thought that there was not going to be public comment during this, during this meeting. I guess playing the Looney Tunes theme may have been an implicit comment.

CHAIRMAN CARNEY: Maybe an implicit comment. Is there any other business to come before the Board.

MR. RODRIGUEZ: Yeah, Mr. Chairman, it's Al Rodriguez. It's come to my attention that I did not ask you for your vote on the resolution approving the minutes of May 22nd, 2020. How did you vote on that?

CHAIRMAN CARNEY: I approved. I was an aye.

MR. RODRIGUEZ: Okay, thank you very much.

CHAIRMAN CARNEY: Thank you, Al. Thank you very much. I want to thank everybody for coming. May I have a motion please, if there is no further business to come before the Board, may I have motion, please to adjourn.

MR. GOLDIN: So moved.

CHAIRMAN CARNEY: Thank you very much, Jon. Is there a second?

MS. FERNANDEZ-KETCHAM: Second, Evelyn.

CHAIRMAN CARNEY: Thank you, Evelyn. Mr.

Rodriguez, do we have to poll the Board to adjourn the meeting?

AR: Yeah, we might as well, yeah.

CHAIRMAN CARNEY: Okay, all right.

AR: Mr. Carolina, do you, how do you vote on the motion to end the meeting? Mr. Carolina?

DR. CAROLINA: Aye.

AR: Ms. Fernandez-Ketcham, how do you vote?

MS. FERNANDEZ-KETCHAM: Aye.

AR: Member Freed, how do you vote?

MR. FREED: Aye.

AR: Member Goldin, how do you vote on this, on the--

MR. GOLDIN: Aye.

AR: Ms. Shaw, how do you vote?

MS. SHAW: Aye.

AR: And Mr. Carney, how do you vote on that?

CHAIRMAN CARNEY: Aye.

AR: All right.

CHAIRMAN CARNEY: The meeting, the meeting has been adjourned unanimously. Thank you all for coming.

[END RECORDING]

C E R T I F I C A T E

The prior proceedings were transcribed from audio files and have been transcribed to the best of my ability. I further certify that I am not connected by blood, marriage or employment with any of the parties herein nor interested directly or indirectly in the matter transcribed.

Signature

Date _______October 18, 2020___________