

NEW YORK CITY WATER BOARD

**Wholesale Rate Public Hearing
5-24-22 (Daytime)**

2 MR. OMAR NAZEM: Good morning. We're here
 3 for a presentation between DEP, the Water Board,
 4 and our rate consultant, Amawalk Consulting
 5 Group, so we're going to take you through some
 6 highlights, some DEP from the last year, and
 7 then we'll walk you through sort of a financial
 8 update, and we'll walk you through what we're
 9 proposing to the Water Board to do with respect
 10 to the wholesale water rates charged north of
 11 the city. So, I'm going to hand this to Mikelle
 12 Adgate now.

13 MS. MIKELLE ADGATE: Thank you, Omar. Good
 14 morning, everyone, and thank you for joining us
 15 to hear the presentation as well as to those of
 16 you who will be providing testimony, whether
 17 verbal or written.

18 This is a public hearing of the New York
 19 City Water Board on wholesale water rates to
 20 take effect beginning July 1st, 2022. We are
 21 holding this meeting pursuant to State Executive
 22 Order, permitting virtual public meetings as a
 23 public health precaution.

24 First, we would ask that everyone place
 25 their phone on "mute" in order to limit the

2 background noise. I have placed several
3 documents in the official record, including a
4 notice appointing me as the Hearing Officer,
5 verified copies of the public notices placed in
6 the newspapers, a copy of the Rate Consultant's
7 report on the regulated wholesale rates, and
8 copies of the written testimony received by the
9 Board so far.

10 The rate consultant's report is available on
11 the Water Board's website, as is a copy of the
12 presentation you will be hearing today. This
13 meeting is being recorded, and once prepared, an
14 audio recording and transcript of the meeting
15 will be made available on the Board's website,
16 which you can find at nyc.gov/nycwaterboard.
17 Again, that's nyc.gov/nycwaterboard.

18 For members of the public who have
19 difficulty hearing, there is a real-time text
20 captioning feature available to follow up with
21 the meeting. You can link to the captioning
22 service from the Public Hearing Notice, under
23 the Meeting tab of the Board's website.

24 The program for this morning includes two
25 sections. First, the Department of

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2 Environmental Protection will make a
3 presentation, then members of the public will
4 have an opportunity to make a statement. We do
5 have Jonathan Goldin from the Water Board with
6 us today, so thank you, Jonathan, for joining.

7 MR. JONATHAN GOLDIN: Happy to be here,
8 thank you.

9 MS. MIKELLE: We are also joined by the
10 Water Board's Treasurer, Omar Nazem, and by the
11 Board's rate consultant with the Amawalk
12 Consulting Group, Ed Markus, and Shan Lin, as
13 well as many staff members from the Department
14 of Environmental Protection.

15 Now, I'm going to hand the Hearing over to
16 the Board's Treasurer. Omar?

17 MR. NAZEM: Good morning. So, I - As I
18 mentioned, we're on a tag team, this with
19 Amawalk, and you're going to hear from me a
20 little bit at the beginning. I'll take you
21 through what's happened with the agency in the
22 last year, some of the highlights, and then I'll
23 hand it over to Amawalk, and they'll walk you
24 through some of the numbers and what we're
25 proposing to the Board should be done about

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2 wholesale rates next fiscal year starting July
3 1, 2022.

4 The presentation material I'm going to walk
5 everyone through is on the Board's website,
6 which is nyc.gov/nycwaterboard, all one word,
7 NYCWaterBoard. If you go to the website,
8 there's an announcement section on the right.
9 If you click the Hearing Notice for the hearings
10 outside the city, you'll pull up a notice, and
11 there's a link to "Presentation Materials" that
12 will open up the Presentation file.

13 Also, on the Board's website, under the
14 Rates section, is a mark-up of the Rates
15 Schedule. That's the Rule Book, the list of
16 charges and billing policies, these are the
17 actual numerical rates that is the proposed
18 policies for next year. So, those two documents
19 are really what you want to be reviewing in
20 terms of what we're proposing to do with the
21 wholesale rates.

22 But I'm going to start with Slide Number
23 One, the presentation. I think most people on
24 the call are frequent attendees for these annual
25 hearings, but just to - for anyone who isn't

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2 familiar, the purpose of today's presentation
3 is to propose increases to the water rates we
4 charge to municipal customers in water districts
5 north of the city.

6 The city's water system is a far-flung
7 operation. We are a substantial land holder
8 north of the city, and a substantial owner of
9 water supply assets that are used to collect,
10 store, and convey water from north of the city
11 locations into the city. That creates a
12 convenient dynamic where, if you are a community
13 in between or amidst the water supply assets of
14 the city, you have the opportunity under State
15 law, to request that the city sell you water
16 from those assets, and the city is obliged,
17 under reasonable conditions, to sell the water
18 in exchange.

19 It's a different financial configuration
20 than what prevails in the city, where the city
21 is a combined water and sewer, sort of do-it-all
22 utility company. In the arrangement we have
23 north of the city, we sell pure, raw, in a
24 sense, untreated water from our assets to those
25 communities, and it's a different rate value -

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2 or there's a different rate framework and a
3 different regulatory apparatus because we're
4 only providing water. We're not providing the
5 sewer service, and we're not providing all the
6 treatment we would usually provide in the city.
7 So, it's a bit of a different framework and it
8 requires a different, but parallel, rate setting
9 and financial process from what we do in the
10 city.

11 We hold this public hearing each year to
12 give the public a chance to hear from us in
13 person about what we're doing to get some
14 qualitative information as well as the numbers
15 about what's happened and to give the public a
16 chance to speak up and let their thoughts be
17 known, whether they want to do that verbally or
18 in writing. This was a hearing where you have
19 some of the most senior people involved in this
20 activity. I'm here to listen and learn from
21 comments and opinions folks may have.

22 We have - we gave - we posted notices of
23 these meetings in the newspapers, and we
24 provided an opportunity to pre-register. No one
25 pre-registered to speak today, so we're going to

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2 go through the presentation. At the end,
3 anyone who wants to can speak up. It's free to
4 - they're also free to [background noise] the
5 hearing or in general, to send written comments
6 to us by email or in writing. If you need help
7 with anything at any time, at NYCWaterBoard and
8 dep.nyc.gov.

9 After this hearing, the next main event,
10 from an upstate customer perspective, is the
11 Board's meeting on June 1st, where the Board will
12 convene, it will meet, and it will vote on a
13 budget and rates, including the rates charge for
14 the customers north of the city for the coming
15 fiscal year.

16 I'm going to go to Slide Two now. The theme
17 of this slide is really how we try to be a good
18 wholesale partner, and it seems a little, almost
19 not needed, it seems a little unnecessary to say
20 that, that we would need to be a good partner to
21 our customers, but it's worth saying because the
22 arrangement with our customers outside the city
23 is so different than what we have inside the
24 city. And the city is, in many ways, I'd say
25 this if you've lived here for a long time,

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2 wasn't born here, is very different than other
3 parts of the country and other parts of the
4 state in terms of how we operate and how we do
5 things sometimes. So, I think it is worth
6 saying, we genuinely try hard to be a good
7 partner to our communities who we sell water to
8 and where we have assets that are important
9 located and where we're doing construction
10 projects from time to time and need cooperation
11 and buy-in and we want to be a good construction
12 infrastructure partner.

13 The city's system is substantial in scope.
14 We're serving nearly a million individuals north
15 of the city with water service, in addition to
16 the 8.8 million customers substantially entitled
17 to this population who we sell water to in the
18 city. We are the primary supply source to many
19 communities north of the city, as well as a
20 back-up source if augmentation is required or
21 there's a water safety concern in the community.
22 We are there and available to provide water, not
23 quite on demand, but almost on demand, in cases
24 where it's needed for whatever - whatever
25 reason, whether the primary supplier or an off-

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2 ended supplier as a back-up supplier.

3 We are a substan - As I mentioned, we are a
4 substantial landowner north of the city and a
5 substantial owner of infrastructure assets, and
6 that makes us a substantial taxpayer outside the
7 city, as well. We pay nearly \$170 million a
8 year property taxes, throughout dozens and
9 dozens of communities north of the city. We're
10 often the largest taxpayer in these communities
11 where we're located, and we're nearly always an
12 important financial contributor to the
13 communities. So, as I say, we charge for the
14 water we sell, of course, but we also pay
15 substantial property taxes to the tune of 170
16 million a year on those assets.

17 The Water Board which has had the main
18 seller of water north of the city is tied into
19 the legal and financial structure of the city's
20 water system, which is comprised of, in addition
21 to the Water Board, the City of New York, which
22 runs a utility company. The Department of
23 Environmental Protection actually runs the water
24 and sewer, as well as a partner to the Public
25 Authority Agency, the Water Finance Authority,

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2 which sells bonds to investors and handles the
3 Wall Street side of the operation. Those three
4 entities, the City, acting through DEP, the
5 Board, and the Authority, together, are the
6 triumvirate that oversees the operations, the
7 money, the legal side, and the rate setting of
8 the city's combined water/sewer utility, and the
9 water supply portions that it sells to these
10 communities north of the city.

11 We are - we try to be a little - we don't
12 try to be too hands-on or too activist, but we
13 are there - I don't want to say it, but I'll say
14 a value-added partner when necessary. I
15 mentioned an example that's on the Slide. We
16 hired a consultant several years ago that, if
17 communities wanted to speak up and wanted to
18 help, on a multi-year consulting engagement to
19 identify, like, water revenue losses and cut
20 excess consumption and to try and, you know,
21 reviews rates and cut construction work, and
22 just be a behavioral change to cut down, to
23 capture lost water revenue or get lost water
24 under control.

25 I'm going to slip to Slide Three now. This

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2 is - The theme of this slide is - We are a
3 large construction company, at some level. We
4 do over a billion dollars of construction work a
5 year, sometimes approaching two billion, and
6 hundreds of projects underway at any time, so
7 it's a large operation. And I - the point of
8 this, at the end of the day, is to sell water to
9 customers safely and cleanly and to make sure
10 the used water, the refuse water, the waste-
11 water is treated and sanitized for re-release
12 into the system. And, in fiscal year from 2020
13 through today, and for decades before, the water
14 and sewer service continued uninterrupted,
15 unimpeded, no safety or operational concerns
16 that impeded the flow of water or the treatment
17 of waste-water in any way. And that's an
18 accomplishment for any system of this scale,
19 given the challenging operational environment
20 the last couple of years we've seen here. It's
21 something I think I really want to call
22 attention to, and the agency's six thousand
23 personnel and all played a huge role in that, in
24 making sure the water was there to buy and the
25 waste-water was treated safely. Not all systems

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2 nationwide can say that, so I think we should
3 - I'm proud of the agency, and we did an
4 excellent job operating under very difficult
5 conditions the last few years.

6 We do have some challenges as an agency
7 coming out of the pandemic. Our head count is
8 below where it should be according to our
9 budget. We have a lot of personnel gaps where
10 we need to hire. We have some titles where the
11 workforce is aging, a lot of people going into
12 retirement. We need to hire the next generation
13 of successors in to take up the hundreds of
14 different job titles we have.

15 On the financial front and the water billing
16 front, we had a big achievement, a big computer
17 system achievement I also want to call attention
18 to, which for a government is a big deal. We
19 replaced our old IBM Price Waterhouse billing
20 system we'd installed in the '90s with a state-
21 of-the-art Itineris Microsoft Dynamics product
22 called UMAX, which went into service in
23 September 2021 and is the billing engine for all
24 the system's water bills right now. And it was
25 a major system upgrade. It's a 20 - It was the

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2 biggest in - It was the biggest financial
3 software upgrade in the agency in 25 years, and
4 it was done during the pandemic, and it actually
5 started out and had very modest hiccups when it
6 went live on September 7th, and it's issuing the
7 bills, and the money's being collected, and the
8 customers are getting the bills. They're
9 enhanced bills, they're more informative,
10 they're visually more pleasing, there's a lot -
11 It was a big success. You don't hear of
12 computer software system upgrade success,
13 usually, in connection with the government or
14 often in connection with government. This was a
15 big success, so, that's another thing we're all
16 very proud of the agency for getting done last
17 year.

18 And then I'll just mention to you one
19 construction project that I think is on
20 everyone's mind, is work on the Delaware
21 Aqueduct by-pass tunnel is continuing. That's a
22 huge project. It's been in the headlines for
23 many years. It's the biggest repair project in
24 the history of the city's vast water system.
25 DEP is coordinating the work on the timetable

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2 for the tunnel shut-down, along with the
3 affected municipalities outside the city, as
4 well as our numerous regulators, to make sure
5 the supply of water is sufficient and
6 uninterrupted and of suitably high quality to
7 all the communities in the city during the shut-
8 down phase of the project.

9 So, I'm going to go on to Slide Four now.
10 The point on this slide is - We have a large
11 capital budget. It's grown over the years.
12 It's about 25 billion now, the most recent
13 published numbers from March of 2022. It's a
14 very large project. One point I do want to make
15 is, I knew it was kind of testament to past
16 success. The part of the budget that's
17 allocable to water supply projects has declined
18 in recent years, and that's because so much of
19 the spending has been, in the early 2000s and
20 the '90s, was on water supply projects. Water
21 supply was a much larger portion of the capital
22 budget. If you go back even as recently as
23 2009, it was more than 20%, and it's kind of
24 shrunk down now because of all the good work
25 that was done in the past. The city's focus is

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2 - You would tend to think a more boring
3 project in a sense, were things like sewer work
4 and just replacing old water mains and the state
5 of good repair work on our waste-water treatment
6 plants in the city. But, and to add to that,
7 the growth in the capital plan has really not
8 been on the water supply side where the assets
9 are of a high quality were - A lot of them
10 upgraded in the '90s and 2000s, and where the
11 needs for growth in the budget are more, you
12 know, prosaic in city-types of issues. So,
13 that's Slide Four.

14 I'm going to slip to Slide Five now. This
15 is something I don't think will be a surprise to
16 anyone who's been reading the newspapers, but
17 interest rates are rising. Interest rates fell
18 a lot during the pandemic. The government took
19 action to try and stimulate the economy through
20 making lending and borrowing more attractive,
21 and rates started to rise very sharply,
22 especially short-term rates, in the fourth
23 quarter last year, and that's continued up
24 through the present.

25 There are just still - not hiring, compared

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2 to pre-pandemic borrowing rates, and if you
3 did this chart out, you know, thirty years, I
4 mean, the cost of borrowing is still pretty
5 reasonable for anyone who remembers the days of
6 15 and 20% interest rates. There may be someone
7 on the call.

8 The fact the rates are rising does mean is -
9 We're going to face higher borrowing costs than
10 we did last year, particularly on our variable
11 rate debt, and that's going to be an added cost
12 to the system, nothing unmanageable, but it's,
13 marketwise, an ominous thing. We're showing
14 government bonds here, we're showing municipal
15 bonds, and the rate rise has been very dramatic
16 over a short period of time. Still very
17 affordable borrowing costs, so not particularly
18 high in the scheme of the history of interest
19 rates, but it is - it is - it has been a verge
20 macro-rise [phonetic] in rates since the fourth
21 quarter of last year.

22 Going on to Slide Six, this again - I think
23 everyone's experiencing this every day, the rate
24 of inflation for basic consumer goods and
25 services is at a level, in terms of percentage,

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2 that no one's seen since the early 1980s.
3 You're seeing that at the gas pump, you're
4 seeing that at restaurants, you're seeing it at
5 coffee shops. It's broad-based and widespread,
6 and I'm also thinking of rents and house prices,
7 but it's there, too. So, this is something
8 we're watching. Even - If market-wide inflation
9 is rising, it's going to hit our budget at some
10 point. We haven't seen too many dramatics signs
11 of it yet. We have a lot of our costs tied in up
12 long-term contracts, but if market inflation
13 increases, it's going to hit our budget and
14 that's going to come into rates in some way,
15 shape, or form in the future.

16 And so, for the last slide, Slide Seven,
17 before I hand it over to our rates consultants
18 at Amawalk, Ed and Shan, I touched on this a
19 little bit before, but we charge rates under a
20 different legal-financial framework north of the
21 city than we do in the city, and there are two
22 rates. The two rates are there because of an
23 ancient state law that, you know, it's still on
24 the books, and it has been a single framework
25 for a long time, so that's why we do what the

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2 law says we have to, but we have one rate
3 which is the allowance quantity rate, or the
4 regulated rate, that we charge on all the water
5 used in each town up to a threshold. That
6 threshold amount is doubly variable. It's based
7 on the population of the town, multiplied by
8 whatever the per capita water consumption
9 happened to be in the City of New York in that
10 month. And so, the thresholds move around from
11 month to month, and they're different from
12 community to community, based on population,
13 based on how much water was used in New York
14 City on a per capita basis in the month in
15 question.

16 So, anything up to that threshold amount for
17 that particular town gets charged one rate, the
18 regulated rate, the allowance quantity rate,
19 sometimes called the entitlement rate. Anything
20 over that gets charged a second rate, which is
21 generally called the excess rate, sometimes the
22 rate on price of water charged in excess of the
23 allowance amount, but for that reason, there's
24 that threshold constant in state law. We have
25 to have the Tier One rate and the Tier Two rate.

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2 The last thing I'll mention on the slide
3 is just water consumption trends. We saw an
4 increase in water consumption in fiscal year
5 2021 by wholesale customers of 1.6%, compared to
6 the prior year, most of which is probably in
7 part is, you know, fewer people commuting to the
8 city, and more and more home office work versus
9 the - - fiscal year '21. And this year, year-
10 to-date wholesale water consumption is 5% lower
11 through March than the year before. A lot of
12 that, I would expect, due to people returning to
13 the office and that work-from-home format
14 phasing out in some remote places.

15 That's the update from the DEP Water Board
16 set. I'm going to hand it over to the Amawalk
17 folks now, and they can take you through Slide
18 Eight and the rest of the presentation.

19 MR. ED MARKUS: Thank you, Omar, and good
20 morning, everyone. This is Ed Markus of Amawalk
21 Consulting. I'll speak first, and then my
22 colleague Shan Lin will read a statement into
23 the record, and we'll get to Slide Ten. What
24 Slide Eight has noted on the top, there in the
25 title, DEP is proposing a 1.4% increase to the

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2 regulated rate, and a 4.9% increase to the
3 rate charged on quantities used in excess of the
4 regulated rate. The impact of the 1.4% increase
5 in the regulated rate is to increase the rate
6 per million gallons to \$2,083.48. The effect of
7 the increase in the excess rate of 4.9% would
8 result in a rate per million gallons of
9 \$5,617.46.

10 I'd just like to add also a note on upstate
11 wholesale delinquencies. There was a small
12 increase in delinquencies beginning in 2019,
13 which was actually before the pandemic. Thus
14 far, delinquencies have not impacted the rate
15 increases, but any growth in wholesale
16 delinquencies could lead to higher rate
17 increases in the future. There's currently no
18 allowance in the regulated rate for
19 delinquencies by wholesale customers. I'd also
20 like to note that delinquent wholesale customers
21 have to pay interest on overdue amounts at a
22 rate equivalent to the highest applicable rate
23 on delinquent property taxes owed in New York
24 City, which will be 18% per year for fiscal year
25 2023.

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2 Let me move to Slide Nine, please. Slide
3 Nine shows the components used in the
4 calculation of the proposed regulated rate for
5 fiscal year 2023. The largest category is water
6 supply O&M expenses that exclude personnel, so
7 all expenses other than personnel, \$307 million.

8 There are three major components to that, as
9 Omar had mentioned. The largest component is
10 property taxes paid to upstate communities,
11 school districts, fire districts, and so forth.
12 That's over 50% of the expenses that are other
13 than personnel at about \$170 million. Two other
14 categories of note are \$42 million for
15 activities that are related to filtration
16 avoidance, and there's also \$23 million of an
17 allowance in there for the Delaware Aqueduct
18 shutdown project.

19 Debt service expense: 242 million, a
20 combination of both debt service on outstanding
21 obligations as well as projected debt service on
22 future bonds to be issued. Water supply
23 personnel costs of \$140 million, salaries and
24 wages, as well as fringe benefit and pension
25 costs.

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2 The other components are listed here on
3 Slide Nine. Total expenses for water supply as
4 projected for fiscal year 2023 are \$813.7
5 million. That forms the numerator of the
6 calculation for the unit rate. The denominator
7 is projected total water supply, which is
8 390,551 million gallons. That is a combination
9 of both in-city as well as upstate consumption.
10 It results in a unit cost per million gallons of
11 water supplied of, again, \$2,083.48.

12 Moving to Slide Ten, as Omar mentioned at
13 the outset in Slide One, the upcoming events
14 would be the Water Board meeting on Wednesday,
15 June 1st, to vote on the budget and the final
16 rate. And now, I'd just like to briefly turn it
17 over to my colleague, Ms. Shan Lin, who'll read
18 a statement into the record regarding our
19 analysis and report.

20 MS. SHAN LIN: Thank you, Ed. The Amawalk
21 Consulting Group is here today to testify
22 regarding a report on the cost of supplying
23 water to upstate customers for the 2023 rate
24 year that was prepared by the firm. For the
25 record, we wish to say that the report was

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2 prepared in accordance with the methodology
 3 that was approved by the New York State
 4 Department of Environmental Conservation.

5 The proposed regulated rate for fiscal year
 6 2023 is \$2,083.48 per million gallons, which
 7 represents an increase of \$28.85 per million
 8 gallons relative to the existing rate of
 9 \$2,054.63 per million gallons. The increase in
 10 charges over the current rate will be \$2.02 for
 11 the entire year, or less than a penny per day
 12 for a single-family residence using 70,000
 13 gallons of water per year.

14 MR. MARKUS: That concludes our testimony
 15 and presentation. Omar?

16 MS. LIN: Thank you, sir.

17 MS. MIKELLE ADGATE [phonetic]: Thank you
 18 very much, everyone. Now, I'm going to begin
 19 the public testimony portion of the hearing,
 20 starting with the pre-registered speakers, after
 21 which I will ask the general audience if anyone
 22 else would like to comment. At this time, we
 23 don't have any registered speakers, so if you
 24 are someone who would like to comment, I would
 25 ask that you first identify yourself, and then

2 we'll go in the order that people call out.

3 Is there anyone who would like to comment?

4 [pause] Okay. Hearing none, that concludes our
5 hearing for today. The Board will be returning
6 for its next business meeting on Wednesday, June
7 1st, at 1:00 p.m., when the Board will consider
8 and vote on the proposed rates and its budget
9 for next year. Thank you and have a great rest
10 of the day.

11 OMAR: Thank you, everyone.

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C E R T I F I C A T E

I, Dena Dale Crain, certify that the foregoing transcript of the New York City Water Board's Wholesale Rate Public Hearing 5-24-22 (Daytime) was prepared using standard electronic transcription equipment and is a true and accurate record 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: May 26, 2022

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