

# **New York City Water Board Public Hearing**

## **Water Rate Outlook for Customers North of the City for the Fiscal Year Beginning July 1, 2022**

**May 24, 2022**



## Today's presentation

- Today's public presentation addresses proposed water rates to be charged effective July 1, 2022 for water sold by the City of New York to communities and water districts located north of the City
- A public hearing is conducted by the NYC Water Board in any year in which there is a proposal to raise water rates
- The general public has an opportunity to speak today, following a presentation by the NYC Department of Environmental Protection ("DEP"); pre-registered speakers will speak first, then the hearing will generally be open to the public
- All members of the public with comments, questions, or concerns should feel free to present testimony, or to send questions to the Water Board at 718-595-3591 or [nycwaterboard@dep.nyc.gov](mailto:nycwaterboard@dep.nyc.gov) before 4:00pm on May 31
- The Water Board will meet to vote on the proposed rates on June 1

## **DEP strives to be a good wholesale partner**

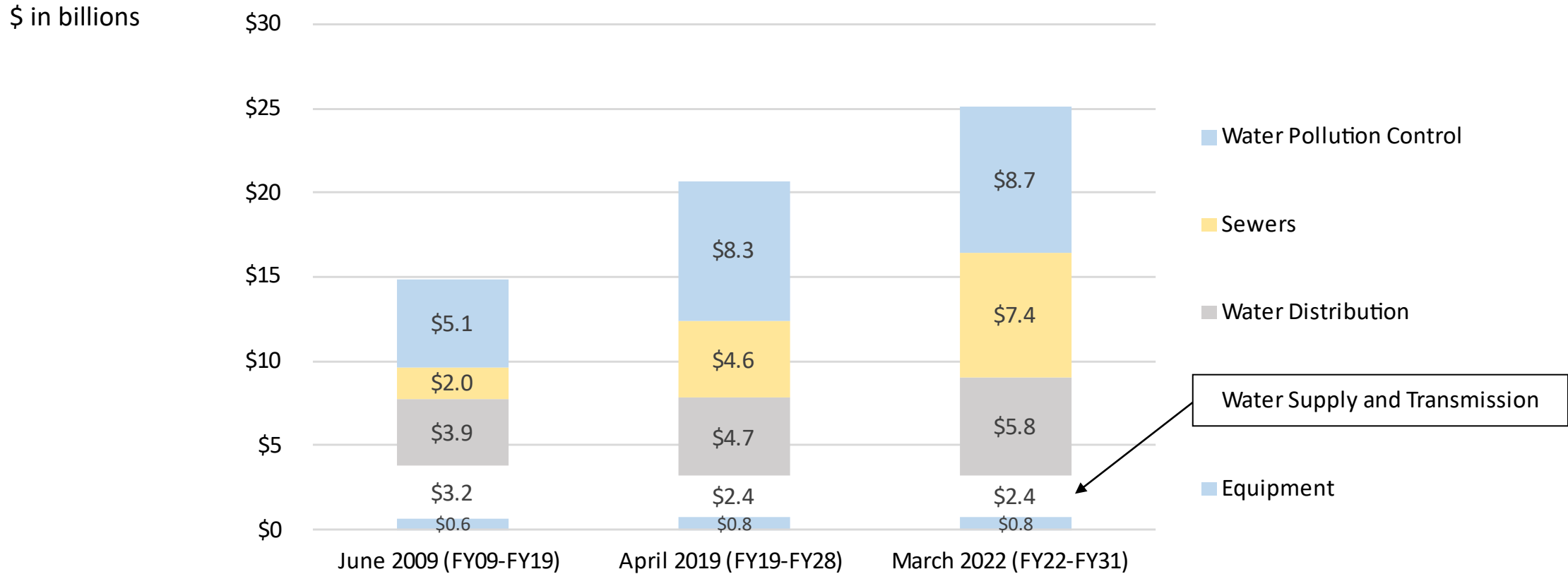
- The New York City Water Supply System is a water source for seventy communities located north of the City, serving nearly a million people. The system is also available for communities whose primary supplies face water quality or water contamination issues, where the City's water system is a viable backup supply
- DEP is a reliable water supply partner for communities facing water quality or water contamination issues, and can make the City's water system available as either a primary supply source, or as an alternate source of water supply to communities experiencing water safety issues
- DEP pays about \$170 million per year of property taxes on water system real property located outside of the City. The agency is often among the largest taxpayers in the communities where water system assets are located
- Due to its size, relationship with the City of New York, and the independent Water Finance Authority, the City's water system can issue debt for capital construction purposes on good terms, allowing cost efficient construction for the benefit of all ratepayers
- The Water Board retained a consultant for a multi-year engagement to provide detailed suggestions to wholesale water customers on techniques for reducing water consumption and identifying lost revenue

## **DEP made significant progress during Fiscal Year 2022**

- The water system's operations were not materially impacted by the pandemic, allowing water service to continue without interruption
- System operations experienced some challenges as a result of the ongoing effects of the pandemic, including reduced staffing caused by difficulty in hiring. DEP's staffing levels are currently well below budgeted personnel levels
- Recruitment, hiring, and training are agency priority areas for 2022 and 2023, with a focus on restoring staffing to budgeted levels
- The system's new UMAX/Microsoft Dynamics billing system serves as the core water billing tool for the agency following its launch in September 2021, with wholesale bills now being generated by the system
- Work on the Delaware Aqueduct Bypass Tunnel is progressing well. The project is the largest repair project in the history of the New York City Water Supply System, and DEP is coordinating the timetable for the tunnel shutdown with the affected municipalities outside the City, as well as the system's regulators, in order to ensure the availability of water supply to customers

## The system's capital budget remains robust and well-funded, following a period when water supply projects were a larger focus

Water Supply Projects as a Percent of Total Capital Plan Funds	21.8%	11.6%	9.7%
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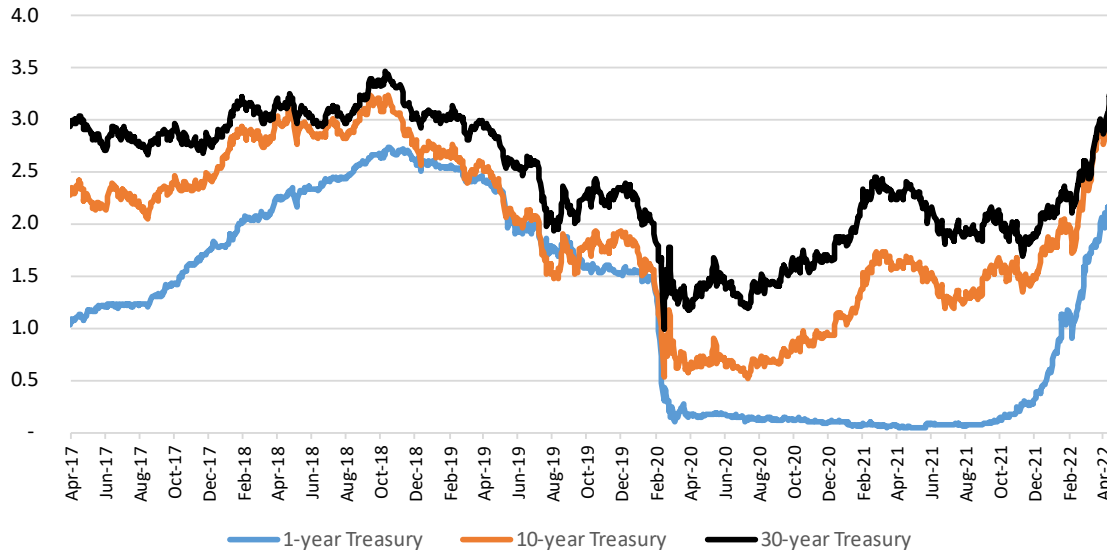


Note: chart includes City funds; does not reflect additional capital project funds from Federal sources  
 Source: NYC Municipal Water Finance Authority official statements dated 6/18/09, 4/10/19, and 3/2/22

# The capital plan is mainly financed by selling bonds, and rising interest rates are increasing system borrowing costs

- Market interest rates began to trend upward during the fourth quarter of calendar year 2021 and have continued to rise through May 2022
- The increase in U.S. Treasury rates has been accompanied by an increase in interest rates for municipal bonds
- Despite recent increases in interest rates, the system can borrow at rates comparable to long-term average borrowing rates
- Together with higher rates of price inflation, higher borrowing costs are increasing the system's costs
- Credit ratings on water bonds remain high based on the Board's authority and willingness to set rates that meet the system's funding requirements

Market Yield on U.S. Government Treasury Securities



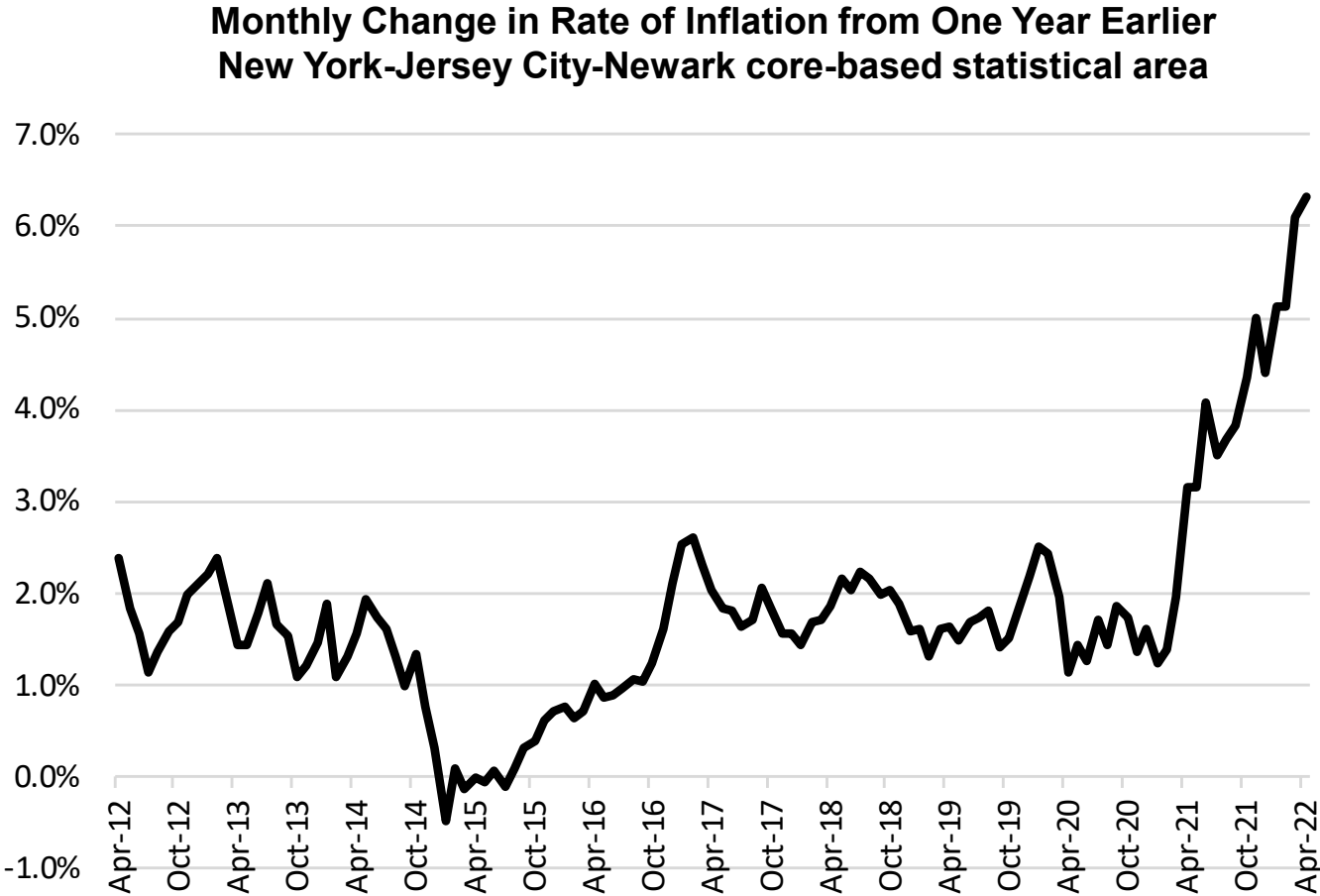
Rate Changes and Benchmark Rates for Municipal Bond Issuers

	Current Market Yield	Change From March '22	Change From 1-Year Ago	20-Year Average
1-Year	1.99%	0.43%	1.89%	1.10%
2-Years	2.31%	0.54%	2.17%	1.29%
5-Years	2.60%	0.59%	2.10%	1.83%
10-Years	3.02%	0.80%	2.00%	2.61%
30-Years	3.37%	0.80%	1.78%	3.56%

Source: St. Louis Federal Reserve, data series DGS1, DGS10, DGS30, as of 5/16/22

Source: Refinitiv, AAA Municipal Market Data (MMD), as of 5/17/22

# DEP is closely tracking inflation, which is trending upward and may result in higher water rate increases in future years



Source: U.S. Bureau of Labor Statistics, data series CUURA101SA0

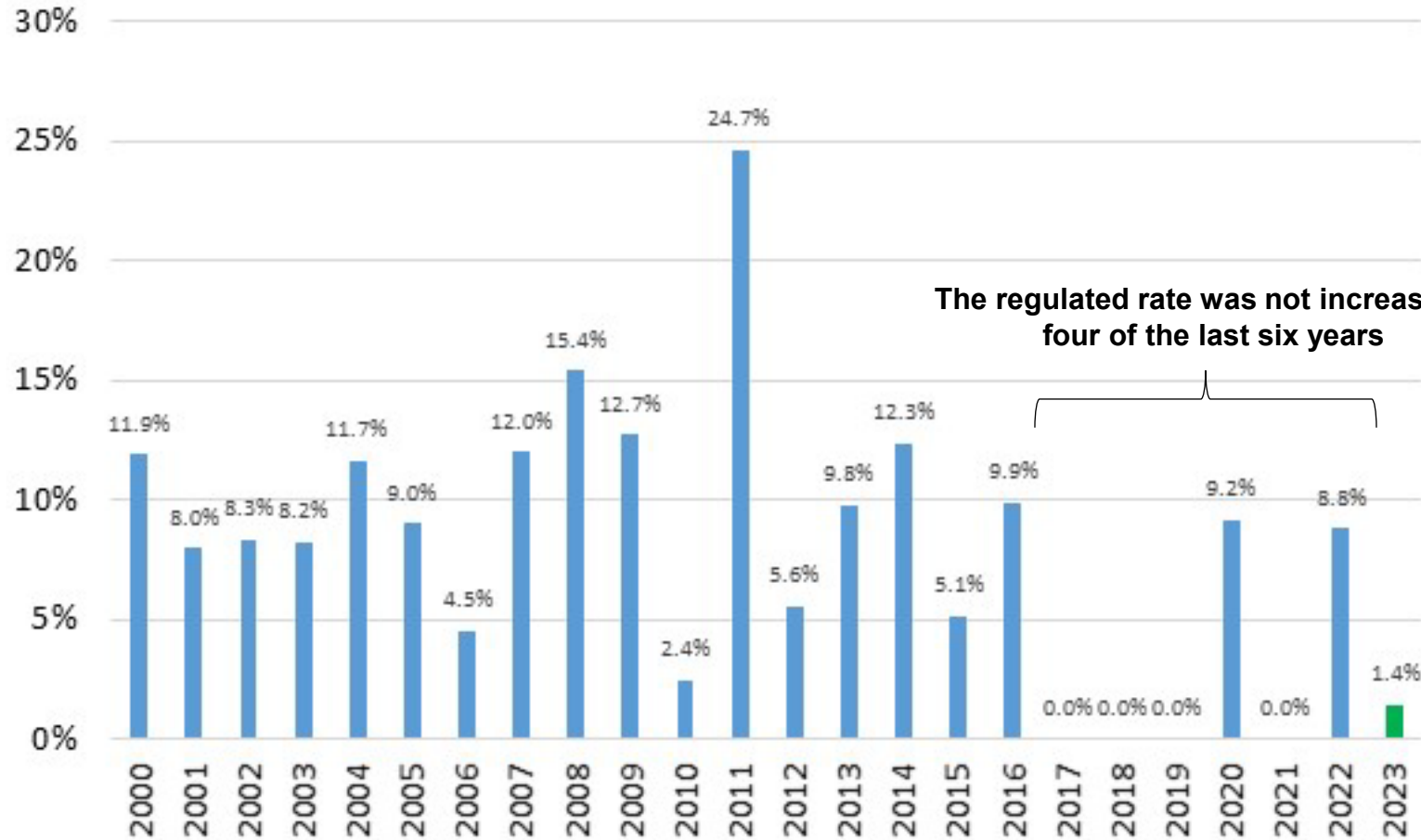
# Background on water rates charged north of the City

There are two rates –

- The allowance quantity rate, also referred to as the entitlement, or regulated, rate
  - The regulated rate is the rate chargeable on quantities of water sold to a community up to the total amount of water equal to the community's population multiplied by the rate of per capita water consumption in New York City, using decennial Federal census data as the population base
- The excess rate is applicable to water consumed in excess of the per capita threshold that would qualify the water for billing at the regulated rate
- Since population and per capita consumption are both variables, the thresholds shift over time, and are different from customer to customer
- There was an increase in water consumption by wholesale customers in Fiscal Year 2021 of 1.6%, compared to the prior year
- Through March of Fiscal Year 2022, wholesale water consumption is 5.0% lower than the year before



# DEP is proposing a 1.4% increase to the regulated rate, and a 4.9% increase to the rate charged on quantities used in excess of the regulated rate



- An increase to the regulated rate of **1.4%**, equating to a rate per million gallons of **\$2,083.48**
- DEP is also recommending an **increase to the excess rate of 4.9%**, equal to the proposed in-City rate increase, equating to a rate per million gallons of **\$5,617.46**
- **Update on wholesale delinquencies:**
- There was a small uptick in delinquencies beginning in 2019, before the pandemic. Customer delinquencies have so far not impacted rate increases, but growth in wholesale delinquencies could lead to higher rate increases in the future
- Delinquent wholesale customers pay interest on overdue amounts at a rate equivalent to the highest applicable rate on delinquent property taxes owed in New York City, which will be 18.0% per year for Fiscal Year 2023

# Calculation of the proposed regulated rate for Fiscal Year 2023

	<u>\$ Millions</u>
Water supply O&M expenses, excluding personnel	\$307.2
Debt service expense	\$242.8
Water supply personnel costs	\$140.6
Defeasance or cash-funded capital construction	\$54.7
Other DEP expenses allocable to water supply	\$16.0
City shared service costs allocable to water supply	\$1.7
Phase-in of prior year expenses previously under-charged	\$50.7
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Total expenses for water supply	\$813.7
Projected total water supply (MG)	390,551
Cost per MG of water supplied effective July 1, 2022	\$2,083.48

# Calendar of events leading up to the start of the next Fiscal Year

Event	Date	Location	Time
Water Board meets to vote on budget and final rate	Wednesday June 1	Conference call Phone: 347-921-5612 Code: 427 762 372 #	1:00 p.m.

# Questions?