

New York City Water Board Public Hearing

Water Rate Outlook for the Fiscal Year Beginning July 1, 2022

May 25 and May 26, 2022



Welcome and agenda

1. DEP and Capital Projects Update

2. Financial Update

3. Proposed Rates and Billing Policies for Fiscal Year 2023

4. Update on DEP's Sustainable Rate Study

DEP and Capital Project Update



DEP maintained operations during the pandemic, although some aftereffects remain

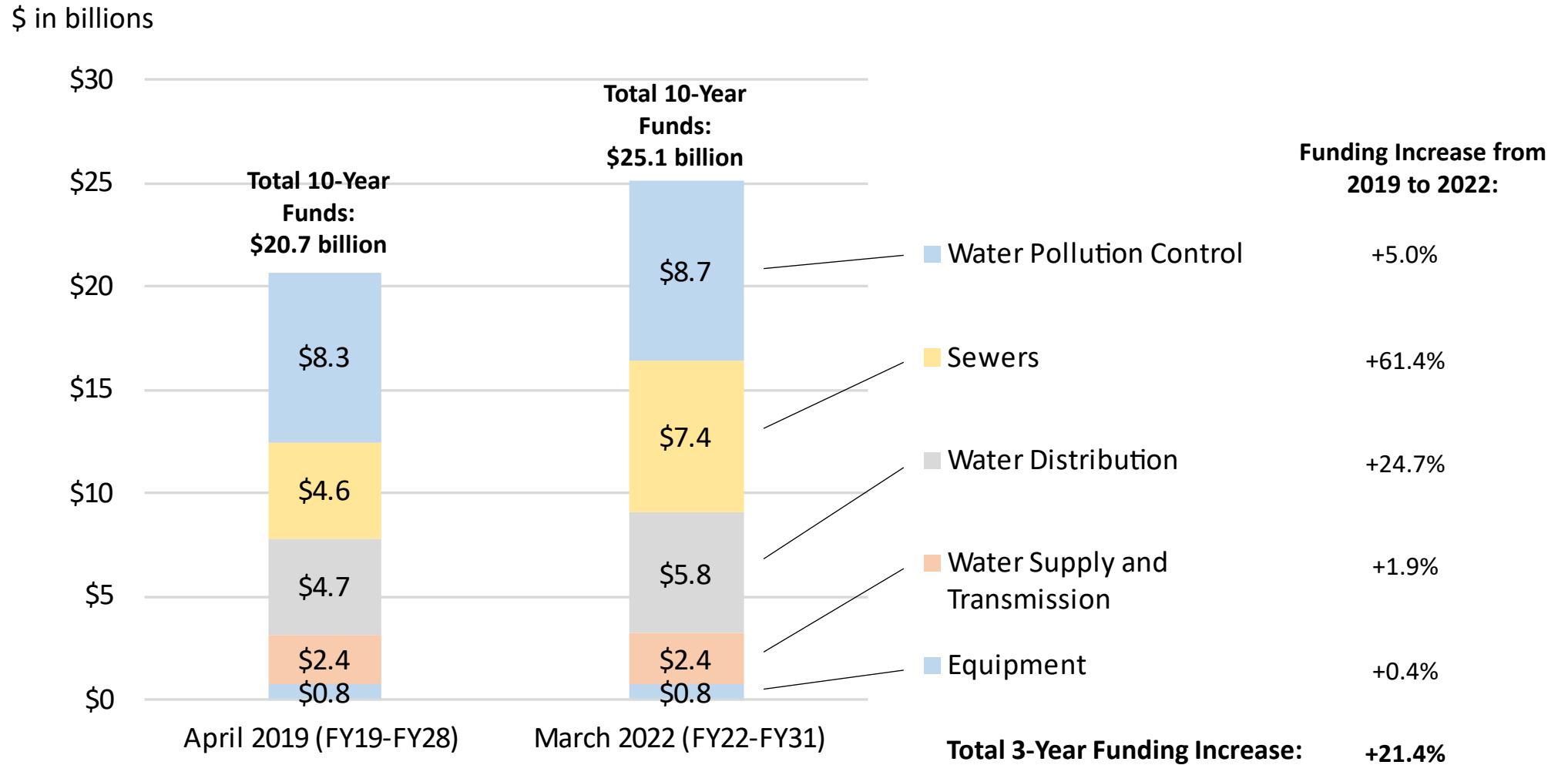
- The water and sewer system's operations were not materially impacted by the pandemic, and the uninterrupted provision of water and sewer service continued throughout the pandemic
- System operations have been impacted by some of the ongoing effects of the pandemic, including a reduced headcount caused by difficulty in hiring during the pandemic. Our onboarded headcount is currently below budgeted personnel levels
- Along with other City agencies, DEP returned to a traditional, five days per week in the office work format in September 2021
- Many of the digital and productivity innovations introduced during the pandemic are expected to remain part of DEP's workflows
- Recruitment, hiring, and training are agency priority areas for 2022 and 2023, with a focus on restoring staffing to budgeted levels

We have significant progress to report on key agency projects

- DEP's new UMAX/Microsoft Dynamics billing system serves as the core water billing tool for the agency following its launch in September 2021
- The UMAX/Microsoft system conversion was the largest financial software upgrade undertaken by DEP in 25 years, and required a major effort by the involved agency personnel
- 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 NYC residents.
- Completion of work on \$148 million of new sewer construction in Canarsie and East New York
- Completion of work on \$15.7 million of improvements and upgrades to the Jerome Park Reservoir
- Work commenced on a \$29 million package of upgrades at 19 NYCHA properties, focused on construction of green infrastructure to mitigate stormwater flows
- Completion of work on an \$18.4 million partnership project with the Department of Transportation, to improve water infrastructure and facilities at Montefiore Square in Harlem
- Work commenced on a \$6.9 million drainage upgrade in the Westerleigh section of Staten Island, including new storm sewer and catch basin installations, as well as water main and hydrant upgrades
- Work on improving Queens sewer infrastructure and flood mitigation continues, including 2021 project completions in Hollis and Queens Village

Financial Update

DEP's capital construction program remains robust and well-funded

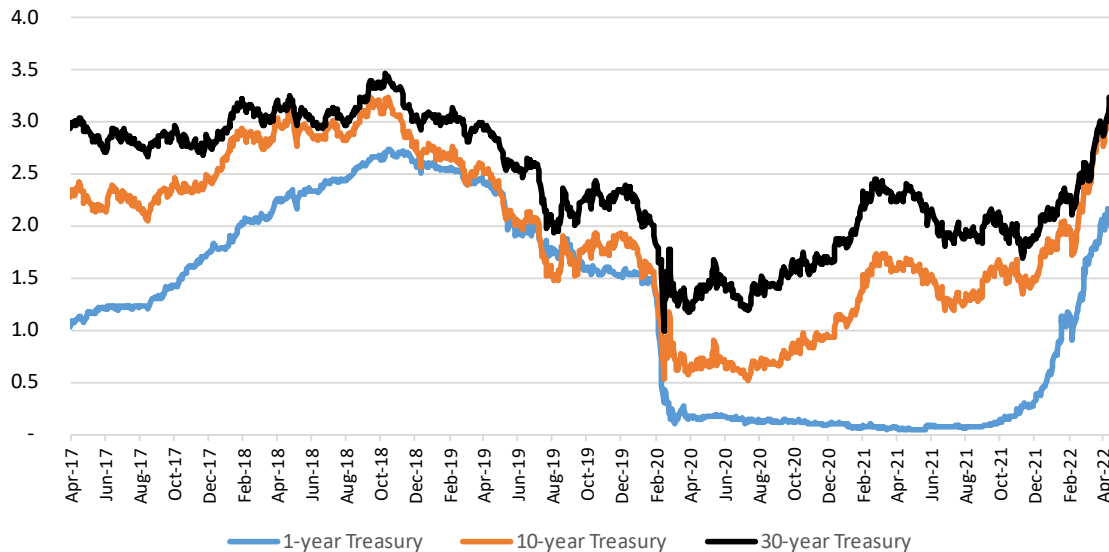


Note: chart includes City funds; does not reflect additional capital project funds from Federal sources
 Source: NYC Municipal Water Finance Authority official statements dated 4/10/19 and 3/2/22

Interest rates are rising, which will increase 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 municipal bond rates
- 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 likely to increase 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

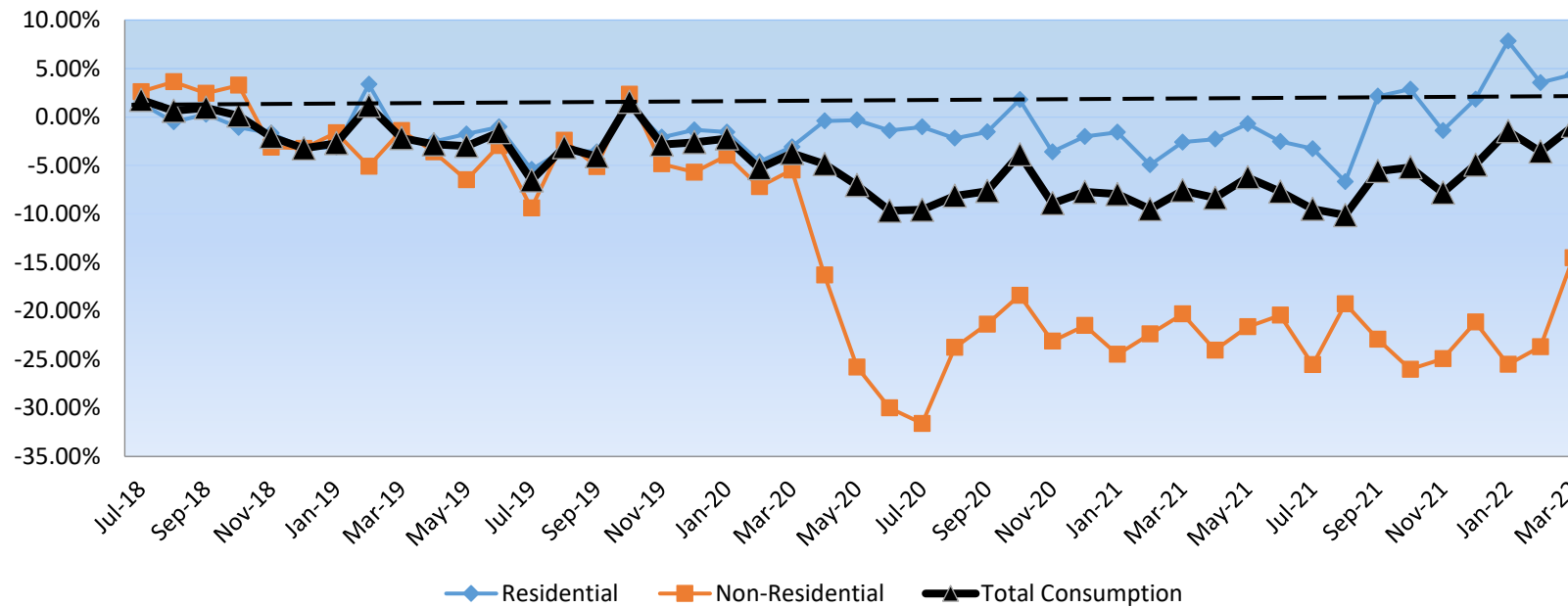
Source: Refinitiv, AAA Municipal Market Data (MMD), as of 5/17/22

DEP and the Board maintained billing and collection activities in FY 2022, while facing challenges from customer delinquencies and lower water consumption

- Billing and collection activity by DEP and the Board faced the headwinds of customer payment deferrals and lower water consumption during FY 2022
- Through May 23, 2022, revenues were \$3.35 billion, which was an increase of 4.3% compared to the same time in Fiscal Year 2021, above the 2.76% rate increase that was implemented for Fiscal Year 2022
- Financial headwinds faced by DEP and the Board include (a) the balance of overdue customer bills, which is higher than before the pandemic, (b) water consumption levels below the quantity of water used prior to the pandemic, and (c) limitations on the availability of collection tools, including reauthorization of the ability to sell liens secured by overdue water bills
- During the pandemic, residential and commercial customers faced with loss of income deferred paying their water and sewer bills
- As the recovery progresses, we are seeing signs of customers who fell behind on their water and sewer bills starting to make payments to restore balances to good standing

Water consumption by metered accounts remains below the pre-pandemic level, with recent consumption data showing an upward trend

Meter-Billed Percent Change in Demand by Month July 2018 to March 2022 versus Baseline (FY 2018)



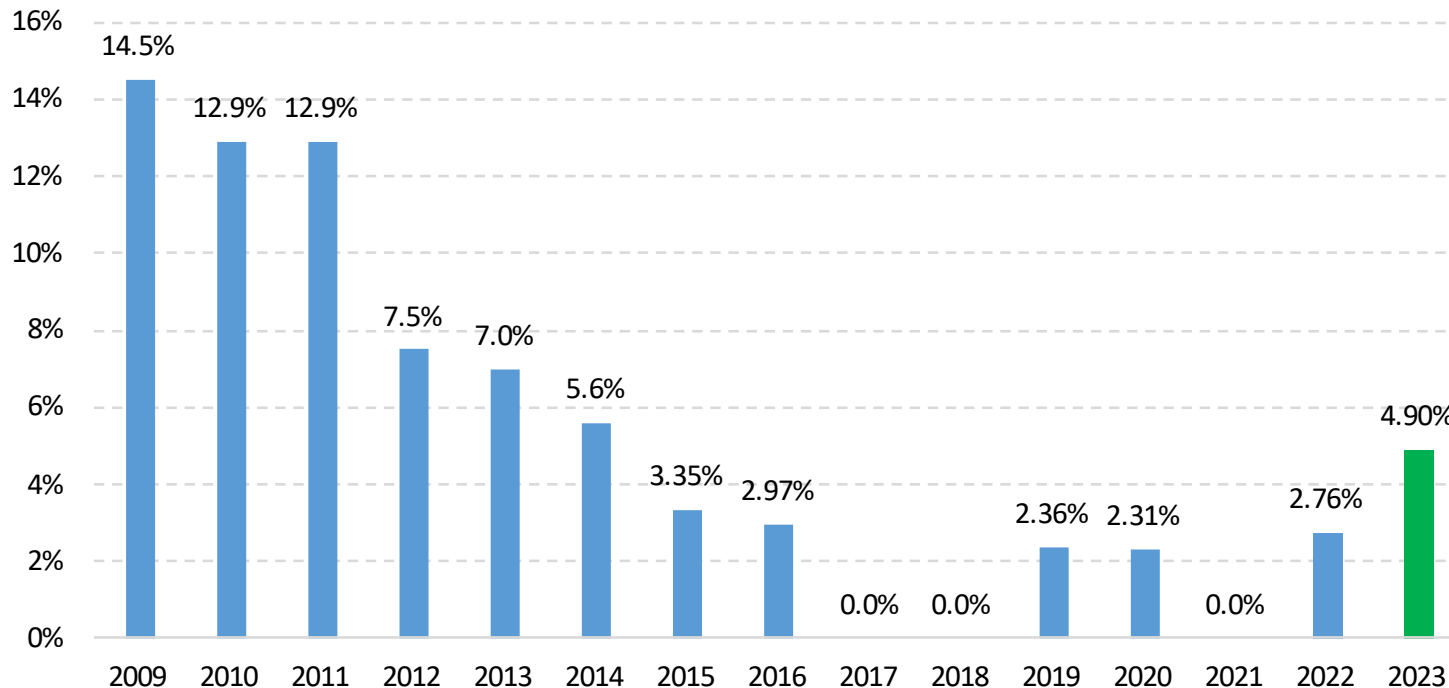
	FY2018	FY2019	FY2020	FY2021	FY2022 YTD
Daily Avg Billed Consumption (MGD)	719.40	711.93	687.68	663.58	690.13
Calendar Days	365	365	366	365	274

Proposed Rates and Billing Policies for Fiscal Year 2023



DEP is recommending that the Board increase rates by 4.9%

- Proposing a **4.90% rate increase** for customers in New York City
- \$30 million of proposed customer affordability program funds preserves the 50% increase authorized in Fiscal Year 2022 into a second program year
- No budgeted rental payment to the City for Fiscal Year 2023



The rate increase will:

- Ensure revenues sufficient to fund the system's robust capital construction program
- Support high ratings from bond rating agencies
- Help mitigate the system from the risks of rising interest rates and inflation
- Support hiring and retention initiatives to return headcount to budgeted levels
- Support expanded analytics capabilities, including analysis of customer data enabled by the new billing system

Residential customers with normal levels of water use will see a small increase to their monthly bills

Annual water and wastewater charges	FY 2022	Proposed FY 2023	Monthly Increase
Average Single-Family Charge (70k gallons per year)	\$994	\$1,041	\$3.90
Average Multi-Family Metered Charge (52k gallons per year)	\$738	\$773	\$2.90
Multi-Family Conservation Program (per residential unit)	\$1,081	\$1,134	\$4.42
Minimum Charged Properties (using less than 90 gallons per day)	\$464	\$464	\$0.00

Note: representative charges are calculated using projected actual billing rates, rounded to two decimal places; year-over-year change in illustrative billed amounts may be slightly different than 4.9% due to rounding to two decimal places

DEP also recommends that the Board continue its \$30 million affordability budget, which would extend the 50% budget increase authorized last year

	Pre-Expansion Annual Program Budget	FY 2022 Program Expansion, Proposed to Extend into FY 2023	Proposed FY 2023 Program Budget
Multi-Family Water Assistance Program (4-unit +)	\$10 million	Additional 8,000 affordable apartment unit credits, for 48,000 total credits of \$250 each	\$12 million
Home Water Assistance Program (1-4 unit)	\$6 million	Larger \$145 bill credit to all recipients, and additional 45,000 new recipients (96,000 total)	\$14 million
Leak Forgiveness Program	\$4 million	Program in line with current terms, 50% bill credit for self-reported leaks that are fixed	\$4 million
Total Affordability Programs	\$20 million	Proposal includes extending the \$10 million program funding expansion adopted in FY 2021 for a second program year	\$30 million

Note: budgeted funds available for the Leak Forgiveness Program are an estimate; program funding can be increased based on availability of qualifying program applicants

Residential use charges will remain lower than in other large cities

Typical Annual Residential Water Charges

		New York City	30 Large City Average ¹	NYC vs. Average
Based on 80k gallons per year	2016	\$1,055	\$1,101	-4.2%
	2017	\$1,055	\$1,156	-8.7%
	2018	\$1,055	\$1,205	-12.4%
Based on 70k gallons per year	2019	\$945	\$1,119	-15.5%
	2020	\$967	\$1,173	-17.6%
	2021	\$967	\$1,216	-20.5%
	2022	\$994	\$1,262	-21.2%
	2023	\$1,041	NA	NA

Note 1: based on rates in effect as of February of each calendar year, using rates in effect during each fiscal year to calculate representative charges

Financial outlook for Water Board budget

Million of dollars	Forecast FY 2022	Budget FY 2023	Comment
DEP operations and maintenance ¹	\$1,657	\$1,824	<ul style="list-style-type: none"> Funds core utility services and personnel Includes enhancements and reserves detailed on next slide
Debt service costs on water and sewer debt	\$1,487	\$1,643	<ul style="list-style-type: none"> Debt service on existing fixed rate and variable rate debt, plus debt expected to be issued
Funds for capital market activities and PAYGO, less release of escrowed funds	\$469	\$263	<ul style="list-style-type: none"> Capital market activities include prepaying or defeasing² debt PAYGO uses available cash instead of debt to pay for construction work Escrowed amounts are the release of funds previously set aside to prepay debt
Water Board and Water Authority combined expense budgets	\$101	\$106	<ul style="list-style-type: none"> No significant changes
Accounting credit for prior-year DEP budget savings	(\$39)	\$0	<ul style="list-style-type: none"> Prior year under-spending is applied as an accounting credit to the following year's budget
Rental payments requested by the City	\$0	\$0	<ul style="list-style-type: none"> No rental payment requested for Fiscal Year 2023
Expenses recoverable through water and sewer revenues	\$3,675	\$3,836	<ul style="list-style-type: none"> Budget growth in line with requested rate increase

¹ Includes \$9 million of additions to the O&M Reserve Fund in each fiscal year

² Defeating bonds involves setting aside money sufficient to repay the remaining principal and interest owed on a bond.

DEP O&M budget invests in core utility activities and customer service, while reserving against price inflation

- The Fiscal Year 2023 DEP O&M budget update includes additional funds for:
- Inflation and cost contingencies include:
 - \$42 million of budget funds to protect against higher input costs for energy and chemical purchases
 - Additional inflation contingency of \$49 million across remaining expense categories
 - Personnel-related costs under collective bargaining agreements that require re-negotiation remain a budget uncertainty
- Climate resiliency programs, including green infrastructure: \$20 million
- Equipment upgrades, replacements, and maintenance: \$17 million
- Funds for additional regulatory and compliance initiatives:
 - Filtration compliance costs pursuant to Federal agreement: \$9 million
 - Design-build programs and regulatory compliance work, including environmental health and safety initiatives: \$8 million
 - Compliance initiatives under revised Federal water quality standards (Lead and Copper Rule): \$7 million
- Additional funds for new needs and agency strategic priorities

Proposed updates to Board policies and rules

- Update the Cap on Metered Charges (Part IV, Section 4 of the Rate Schedule) to clarify that (a) the required leak and waste inspection must occur during the period of time for which the Cap would apply, in instances where the billing convention may be applicable to a customer's account, and (b) the required leak and waste inspection must be performed by DEP, thereby removing the previously available option of permitting the inspection to be performed by either DEP or a DEP-authorized contractor
- The Additional Charge for Non-Compliance with MCP Requirements will be suspended until June 30, 2023; previously, the Additional Charge was suspended through June 30, 2022
- Clarification that unmetered water rates are unavailable to properties that are newly constructed or substantially renovated¹

Note 1: the proposed change would affect frontage rate plans; the Multi-Family Conservation Plan flat rate billing program is available to newly constructed or substantially renovated properties, since properties enrolled in the rate are required to install a meter

Update on DEP's Sustainable Rate Study

- The working group has completed a comparative rate structure analysis and held several public stakeholder meetings
- DEP is working with its consultant to complete the remaining portions of the study
- The upcoming phases of the project include the Revenue Requirements and Rate Options assessment stages of the project
- Once these tasks are completed, the project team will assess options for implementation and assess the potential customer impacts of any prospective rate changes
- The project will conclude with the team issuing a Final Report and Recommendation, in which DEP will present recommendations for potential inclusion in the Board's Rate Schedule
- The project team estimates that the remaining project stages can be completed by the first quarter of calendar year 2023, and that a Final Report and Recommendation can be issued by fall of calendar year 2023

Calendar of events leading up to the start of the next fiscal year

Event	Date	Location	Time
DEP rate proposal to Water Board	Friday April 29	Conference call Phone: 347-921-5612 Code: 487 747 206 #	2:30 p.m.
New York City Public Hearings – daytime	Wednesday May 25	Conference call Phone: 347-921-5612 Code: 835 020 477 #	2:00 p.m.
New York City Public Hearings – evening	Thursday May 26	Conference call Phone: 347-921-5612 Code: 941 587 106 #	6:00 p.m.
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?

