

NYSERDA 148th Audit and Finance Committee Meeting
January 25, 2022
Clean Copy of Transcript

Jay Koh:

Hi, Shere

Sara LeCain:

Jay, if you'd like, you could start the meeting. Perfect.

Jay Koh:

I call this meeting to order notice of the meeting and an agenda was forwarded to the committee members on January 14, 2022, and the press on January 18, 2022. This meeting is being conducted by video conference. The authority will post a video in a transcript of this meeting on the web to confirm that we have a quorum. I would like to ask Sara LeCain, Secretary of the Committee to conduct a roll call of each of the Committee Members in attendance. Sara,

Sara LeCain:

Thank you, Mr. Chair, I will first note your attendance and now take the remainder of the roll call. When I call your name, please indicate present. Chair Kauffman.

Chair Kauffman:

Present.

Sara LeCain:

Shere Abbot.

Shere Abbott:

Present.

Sara LeCain:

Sadie McKeown.

Sadie McKeown:

Present.

Sara LeCain:

Frances Resheske

Frances Resheske:

Present.

Sara LeCain:

Thank you. There are five members and attendance. Therefore, we have quorum.

Jay Koh:

Thank you, Sara. The first on the agenda is the approval of the minutes of the 147th committee meeting held on October 5, 2021. Are there any comments on the minutes seeing none may have a motion approving the minutes?

Shere Abbott:

Moved.

Jay Koh:

The second

Sadie McKeown:

Second.

Jay Koh:

When Sara calls your name, please indicate whether you are in favor by stating aye or opposed by stating no.

Sara LeCain:

Thank you. When I call each name, please indicate your vote. Committee Chair, Jay Koh

Jay Koh:

Aye.

Sara LeCain:

Chair Kauffman.

Chair Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

Sadie McKeown.

Sadie McKeown:

Aye.

Sara LeCain:

Frances Resheske.

Frances Resheshe:

Aye.

Sara LeCain:

The minutes have been approved.

Jay Koh:

Thank you, Sara. The next item on the agenda concerns a resolution to convene the executive session pursuant to section 105a of the Public Officer's Law to discuss the Authorities information technology and cybersecurity internal controls. May I have a motion to convene an executive session to discuss the authorities' information technology and cybersecurity internal controls.

Sadie McKeown:

So moved.

Jay Koh:

A second.

Shere Abbott:

Second.

Jay Koh:

When Sara or your name, please indicate whether you are in favor by stating aye or opposed by stating no.

Sara LeCain:

Thank you. When I call each name, please indicate your vote. Committee Chair, Jay Koh.

Jay Koh:

Aye.

Sara LeCain:

Chair Kauffman.

Chair Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

Sadie McKeown.

Sadie McKeown:

Aye.

Sara LeCain:

Frances Resheske.

Frances Resheske:

Aye.

Sara LeCain:

The executive session has been approved.

Jay Koh:

The Committee Members, the Officers, the Committee Secretary, the Information Security Officer, the Director of Internal Audit, Deputy Council, Valerie Milanovich and the Director of Performance Management will now enter into executive session. During that time, the webcast will remain up upon our return. We will reconvene the meeting. Sara, let us know we can reconvene here.

Sara LeCain:

Yep. It looks like you have least a quorum back.

Jay Koh:

Great. This meeting is reconvened in open session. No action was taken during the executive session. The next out in the agenda is a report by on the Authorities. GJGNY financing activities. Pam, will you discuss this item?

Pam Poisson:

Yes. Thank you, Jay. This is an informational update on the loan participation sale financing vehicle and potential additional liquidity events in 2022 and follow up to related discussion at the last committee meeting. As you may recall, NYSERDA has used both bond issuances and loan participation sales successfully to provide financing for efficiency and clean energy improvements. As you may recall through the Green Job Green New York program, NYSERDA provides New Yorkers with access to energy assessments, installation services, and low interest financing for efficiency improvements and clean energy installations. Increasingly those are focused on supporting the LMI and disadvantage communities in alignment with New York school in that regard much of the green job screen New York program is supported by the RGGI allowance proceeds plus recycled capital to leverage that initial funding. As NYSERDA issues, loans to eligible borrowers. We may decide to either sell shares and bundles of those loans in a transaction called a participation sale, which is a direct pass through or alternatively to use them as collateral for a bond issuance. To briefly differentiate the two bond issuances offer a proven path to turn loan repayment, cash flows into near term accessible capital that can then be put back into programs bond rating methodology, however, works best for loans that are assessed as investment quality including loans that don't really fit the classic investment grade quality standards reduces the bond proceeds. And it also requires the underlying loan collateral to be

seasoned often for up to five years, by contrast, a participation sale tends to produce higher relative proceeds to a comparable bond offering in the instances where loans are not what would be considered typically the highest credit quality. So more of a mixed credit quality. Both of those two in concert are important tools for us to leverage in this. As we work to diversify our audience to grow the client finance markets and make sure that we can recycle capital promptly as a quick update, the participation sale that was launched in 2021 we have issued 43 million thus far, approximately 68 per percent of the available pool. And we have an additional 5 million in loans that are currently under review by a potential investor that we expect to be closing within the next month. If that proceeds as anticipated, we will have sold 75% of that pool and we continue to evolve that inaugural event by improving it through additional marketing efforts, as well as pursuing a waiver that would allow federal credit unions to participate in these participation sales in the same manner in which the state credit unions currently are able to do so also acknowledging that the mark are shifting with interest rates likely to be moving up in the coming months. We want to stay prepared for that. And we are working with an independent pricing consultant to derive a standard methodology that can be used to keep pricing at pace with markets and the seasoning of the underlying loans while staying appropriately objective, we anticipate bringing a proposal to you on that point in the next committee meeting so that we can be able to respond more quickly as we advance further participation sales. Finally, knowing that we've got these two options at our disposal our current as proposed for the year is to hold two liquidity events. One roughly in the October timeline that would be consisting of a classic bond issuance similar to the other seven that we currently have outstanding. And then in November or in that neighborhood, a companion participation sale to allow a venue for us to recycle capital faster than would, would typically be allowed for some of the lower FICO score instruments and loans that we're trying to support. We will continue to evaluate these vehicles ongoing and again look forward to an update with more specifics on those particular structures as proposed within the next several months so that we can make sure you have ample time to consider before we would move forward with any kind of issuance approval request. Let me pause there for questions otherwise. Jay, I can turn it back to you. Thank you.

Jay Koh:

Thanks Pam. Are there any questions for Pam, Richard? I think you may be on mute if you're asking a question.

Chair Kauffman:

Thank you. I'm sorry, Pam, on the participation sale, you said the objective there was to get to 75%. So I just want to understand how to think about that 75%. Is that, do I think about that as an advanced rate and is, or what is, or what's left behind in the 25%? Is it, is it that we just haven't marketed yet or are these loans that are of more questionable credit quality? In other words, is there been things that have been cherry picked? That have been said.

Pam Poisson:

I follow your question, Richard and sorry. And I should have probably clarified that the 75% is where we anticipate getting to with this.

Chair Kauffman:

Next, you, you did, you did say that.

Pam Poisson:

So we are actually aiming to get to selling 100% of the full amount available. The originally available with 63.6 million and through the marketing effort and expanding the credit unions that are eligible to purchase these, we would still aim to sell up to that a hundred percent above and beyond that there is some additional that's held aside as lateralization. I will loop back with the exact advanced rate. I follow your question. I do not have that data point at my fingertips, but I will be able to circle back and have that for you within the day.

Chair Kauffman:

Thank you.

Jay Koh:

Maybe just two following questions, Pam. One is, you know, when we think about these two different liquidity paths, it's great to have some flexibility given that we're also hopefully hopefully doing some of the breaking of new ground by creating at least a pathway for credit unions at the state level and potentially at the federal level to participate in this market, which I think broadens the amount of liquidity and potential capital access and exposure here which is part of the, I think it's system with I serve as overall mission and particularly being able to recycle capital with lower FICO scores, which would serve to provide additional capacity to, to serve the LMI community and other communities outside of kind of high credit quality bond, issuance pools of funding. I think it makes a ton of sense if it'd be helpful in maybe a subsequent kind conversation to understand how you think about balancing these two pools and what the criteria are for targeting the selection of how we actually go through that process. So I don't think that you know, I have a, a firm grasp of when we choose which instrument and what the timing of it is. And the second point is also to understand as we kind of move into a different interest environment with forecast on the market side, at least three probable fed moves, which could be sharper than anticipated, you know, whether we want to get liquidity earlier than that and whether or not the impact of that on more liquid instruments like bonds, bond effect pricing, or other considerations versus folks that wanna take out the, the loan category here. You're gonna see, you know, different appetite for different types of parts of the fixed income risk curve. I don't think we we're here to time the market at nicer, but it's helpful to just anticipate how to approach this as we move into in a different interest rate environment, but I'll leave it open to other questions, but it would be helpful to get some of that thought process and take so that we can be helpful in providing feedback happy to do so.

Pam Poisson:

Absolutely. And thank you chair.

Jay Koh:

Any other questions on this item? Thank you, Pam. This is an informational item only. So we'll move on to the next item on the agenda. Next on the agenda is a report on the recent activities of Internal Audit from its Director, Mary Peck, Mary.

Mary Peck:

Hi, good morning, everyone. I'd like to start with two of our ongoing major activities with regard to the audit of payroll processing. We're currently come completing the field work phase of that audit, and we will be moving into the draft report with regard to the review of the New York green bank compliance program are well into the planning phase of this audit. And we've met with the green bank's compliance officer to discuss the scope of our planned review. The largest item that we have going on right now is internal audit quality assurance review at the October meeting. We advise the members of our selection of a vendor for the external review. We're completing the contracting action and planning for an immediate start with the final report to the committee by March 31st in the interim, we're still finalizing our self-assessment documents and updating all of our internal guidance as necessary. One of the items that was provided to the members was the rotational audit plan as a result of our annual risk assessment process. We've reviewed the rotational audit plan, and I've included that copy for your review. This item doesn't require your approval, but my professional standards require that I keep you apprised of any changes and solicit any comments. The internal audit rotation plan is structured to align with the functional units and primary business processes contained within the authorities. Current internal control for those business processes with higher inherent risks or where internal controls are not functioning as designed and could have detrimental financial or reputational impacts the plan proposes a minimum cycle over these processes. And when they'll be audited for other processes, they may be scheduled for audit on a discretionary basis or upon requests by management or the committee. This document will be used in the development of the risk based internal audit plan for fiscal year 2022- 2023, which will be presented to the committee's April meeting. It should be noted that this tool is not finite and the cycles are subject to any emerging risks staff resource and the direction from the committee, the Authorities, executive leadership, and also KPMG. At that point, I'd be happy to take any questions.

Jay Koh:

That's great, Mary. Are there any questions for Mary?

Mary Peck:

Thank you.

Jay Koh:

Thank you. This was an informational item only and really appreciate and reinforce the importance that we see in this Committee and also at the board level of the internal audit function. So thank you, Mary, for your continued focus and activity here. We've continued to maintain a very long history of unqualified audit opinions from external auditors and also consistent execution on the internal audit side of things. So thank you for your, your hard work in engagement here and the work of management. Are there any other additional items committee members wish to discuss seeing down me? I have a motion to adjourn.

Chair Kauffman:

I'll move it.

Shere Abbott:
Second.

Jay Koh:
All in favor.

Members of the Committee:
Aye. Aye. Aye.

Jay Koh:
Opposed. Thank you very much. This meeting is adjourned.