

**NYSERDA 147th Audit and Finance Committee Meeting
October 5, 2021**

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Sara LeCain:

Okay, Jay, if you'd like to start

Jay Koh:

That's great. I call this meeting to order notice that the meeting and an agenda was forwarded committee members on September 24, 2021. And on September 27, 2021, this meeting is being conducted by video conference. The authority will post a video and a transcript of this meeting on the web to confirm that we have a quorum, I would ask, I would like to ask Sara LeCain Secretary to the Committee to conduct a roll call of each of the Committee members in attendance.

Sara LeCain:

Thank you, Jay. I will first know your attendance and now take the remainder of the roll call. When I call your name, please indicate present. Shere Abbott.

Shere Abbott:

Present.

Sara LeCain:

Sadie McKeown.

Sadie McKeown:

Present.

Sara LeCain:

Francis Resheske.

Frances Resheske:

Present.

Sara LeCain:

Thank you. There are four members in attendance. Therefore, we have a quorum.

Jay Koh:

Thank you, Sara. The first item on the agenda is the approval of the minutes from the 146th Committee meeting held on June 22, 2021. Are there any comments on the minutes? Thank you seeing none. May I have a motion approving the minutes?

Sadie McKeown:

I make a motion to approve.

Jay Koh:

Thank you, a second.

Shere Abbott:

Second.

Jay Koh:

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

Sara LeCain:

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

Jay Koh:

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 minutes have been approved.

Jay Koh:

Thank you. The next item on the agenda is a response to questions asked by the committee at its June 2021 meeting regarding the NYSERDA OPEB trust the authorities acting Chief Financial Officer, Pam Poisson, and the Controller and Assistant Treasurer. Peter Mahar. We'll discuss this item, Pam.

Pam Poisson:

Good morning. Thank you, Chair Koh. It's an honor to be here. And for those of you who may not be familiar with it, just as a gentle reminder, the OPEB trust is a fund established to pay certain approved employee health insurance benefits. The bank of New York Mellon trust company serves as the trustee and Milliman serves as NYSERDA's actuarial and investment advisor at the last

Audit and Finance Committee meeting, we reported that the trust was overfunded relative to likely liabilities, mainly as a result of market movements and resulting committee discussion inquiries arose regarding options to reduce go forward portfolio risk and efforts to preserve gains to date while concurrently continuing our plan divestment of fossil fuels. Peter Mahar, our Controller has worked closely with Milliman to assess our available options and also gathered input from similar peer organizations to have a relevant external benchmark. Peter, I'd like to turn it over to you to share your findings with the rest of the committee.

Peter Mahar:

Thank you, Pam. And good morning to everyone as noted in the committee memo at the June meeting, we reported that our OPEB trust was about 125% overfunded. Given our overfunded position, several questions were raised by the committee members. One, considering the current OPEB trust discount rate. Can we seek input from our advisors for a low carbon pathway or a full fossil fuel divestment two what was our thought of changing the asset allocation to a more conservative set of exposures in comparison to our future expected liability payout, and three, please consider how like entities with overfunded trusts are approaching this question to address these questions. We requested our investment advisors perform an asset allocation analysis, providing us with options for 0% fossil fuel investments. The analysis provided high quality funds with equal or better Morning star ratings and with comparable one-year three-year and five-year returns, Milliman was unable to identify a corporate short-term or long-term bond fund with no fossil fuel investments.

However, they identified short-term and long-term governmental bond funds continuing no fossil fuels with five- and four-year morning star ratings respectively. We are pleased to report that these fossil fuel free and alternatives can be substituted into the portfolio in lieu of existing fossil fuel investments without negatively impacting our overall risk and return profile. The asset allocation analysis also provided several optional portfolios in comparison to our current asset allocation. With the advice of our advisor, we were able to identify a scenario to include reallocation of equity, to fixed income assets, which considers expected volatility and risk in terms of standard deviation of returns and the sharp ratio, which lowers our risk exposure while preserving long-term expected returns at a level needed to pay out future liabilities. Our advisors indicated that our current plan and proposed a scenario are well positioned to pay out future trust liabilities. Lastly, we had the opportunity to consult with a peer organization, in a similar situation we had learned that they have not changed their funding methodology, and they continue to make annual contributions to the trust, to mitigate any year-to-year volatility in their plan. And they are also similarly pursuing de-risking of their portfolio. Pam, let me turn it back over to you.

Pam Poisson:

Sure. Thanks Peter, for sharing those insights. So just to briefly summarize for the committee, with Milliman as our advisor, we have identified a scenario that is in keeping with typical practice and completes our plan divestment of fossil fuel investments. modestly shifts our allocations from equity to fixed income, to decrease the portfolio is relative risk profile and still routines a forward looking 10-year expected return. That's comparable to our current portfolio, so consistent return, lower risk, and divesting from fossil fuels, since this scenario comports with our existing investment policy statement, if there are no objections, we'd propose to work toward this through our regularly scheduled rebalancing activities. Looking ahead, we will also continue to work with

knowledgeable advisors and this committee, to ensure that our actuarial valuation retains up to date and should review, and if appropriate, work together to refine the investment policy statement, to ensure it retains an appropriate balance between risk and return given evolving market conditions, Chair Koh that concludes our report. I'd like to turn it back to you. Thank you.

Jay Koh:

Thank you, Pam. Are there any questions from the Committee for Pam? Maybe I'll just ask too quickly for clarification. Is it fair to say that, we're in a favorable position of being overfunded on an actuarial basis for the OPEB trust, but there may well be obviously some market volatility going forward. So, we'd like to be able to position appropriately in the, under, in accordance with the investment policy that we have and that's recommendation that's being made at this point.

Pam Poisson:

Yes, that is a correct interpretation. Thank you.

Jay Koh:

And just finally to confirm that this recommendation by management, not only can portion of their own investment policy, but is based also on the advice of our third-party advisors that we've contracted with to do this kind of analysis and moves both towards continuing our support of the, OPEB trust from a fiduciary standpoint, but also, continuing to align more closely the deployments of capital by the agency, in accordance with our low carbon strategy.

Pam Poisson:

Yes, that is also correct. Well said.

Jay Koh:

That's great. Any other questions for Pam?

Sadie McKeown:

I just had a question. I'm a little confused. So Milliman is our advisor? And is there, do they have a specialty in this type of investing, you know, moving towards carbon neutral or is this a specialty of theirs or are they just taking our direction to go ahead and do this best, but you know, to divest?

Pam Poisson:

That is an excellent, and I will give an initial response and Peter certainly you've worked with them longer. So, add to this as appropriate. Milliman specializes in, both the advisory side and the actuarial side and this, since this is a trust related to health benefits, that is a preeminent consideration to have an advisor that's very savvy in that area. They like many financial advisors have gotten increasingly conversant, on the ESG side of the equation, the environmental, social and governance, obviously. And so, at our requests, they are leveraging that side of their organization. I will also add that we will continue to pursue best practice, which would be to on a recurring basis evaluate the advisors that we utilize. And so, as part of regular practice, there will be opportunity to teach, revisit, the services provided and make sure that we've got the right expertise at the table, but for the moment we're comfortable with what they've provided. Peter, would you concur, is there any other additional information we should consider here?

Peter Mahar:

So, Pam, I think you described that accurately. And I would just point out that this is our second time through working with Milliman to look at, fossil fuel divestment in our policy, in our policy. We first did that in June of 2018 and when, below, at that point we had about a 6 to 7%, fossil fuel, percentage. And we got that down below 3% and now we're moving forward to, a 0%. So, Pam, what you said was accurate.

Sadie McKeown:

I appreciate the clarity and, that's very helpful. I know my own experience. I've had a little frustration with some advisers that are not as receptive to, they think more in terms of overall return and, and don't necessarily balance that need, to divest in fossil fuel. And so, it's, I'm just glad that you found one that, takes it seriously and has worked to do that for you. So, thank you.

Jay Koh:

Thanks for the question. I think, have you been here at, around the time that we directed that inquiry to occur or was that at the time also when other, agencies and pension funds in New York state were undergoing analysis of decarbonization and so having expertise, obviously at NYSERDA and an alignment, both to support obviously our, our duties, to manage health care benefits for, stakeholders here, but also to go through the inquiry of analyzing how, how difficult or easy it would be to make that transition. We engaged Milliman in 2018, I think maybe towards the end of 2017 to actually make recommendations that would be consistent with our investment policy, to achieve the objectives, on the balance risk return for our beneficiaries, but also to consider doing that in the context of, this kind of low carbon transition. So, I think it's a great question to ask. I think we wanted to also, go through the process ourselves to demonstrate in part the challenges or, ability to actually affect that, with a modest, OPEB trust here, compared to a much more complex, larger scale, activities, but I think, it's useful to have that and to continue on that pathway. So, we had the opportunity here, to evaluate that, we absolutely are going to do that under the context of our existing investment policy, and with existing third-party providers that are obviously are also subjected to this recurrent, competitive selection process. But that's the context. So, it's great to refresh you on that. Correct. Is that a fair characterization, Peter and Pam?

Pam Poisson:

Yes.

Peter Mahar:

Yes, it is Jay.

Jay Koh:

That's great. Are there any other questions for Pam? Thank you, Pam and Peter, this is an informational item only, but I appreciate the questions from the committee. The next item on the agenda is a report by the, on the authority's transaction through loan street. Pam, will you discuss this item?

Pam Poisson:

Yes. Thank you. Chair Koh this is also an informational update on that loan participation sale financing vehicle that was discussed at the last Audit and Finance Committee meeting. And

NYSERDA believes it's valuable to keep several financing options open to ensure we can stay well positioned to serve rate payers, cost effectively as financing markets evolve, to that end from time to time, we may propose financing vehicles such as that recent loan participation sale. You may recall that as discussed at the last meeting. The participation sale transaction tends to produce a better net present value than comparable bond sale offerings. It puts capital to work very quickly and also allows us to diversify our financing audience, which in turn helps grow the climate finance markets in general. That participation sale launched earlier this year was well constructed.

And has generally been successful in that regard. Here are a few data points, as of the end of September. So, the close of our latest quarter, approximately half of the loans available for sale, had in fact been purchased, this week we expect to close on another 11.8 million in notional balance, comprised of both Tier 1 and Tier 2 loans. And with that transaction, 68% of the principal balance available for sale, will have actually gotten out in the market. So that's a fairly satisfactory performance given that this has been in existence for about four months, for active engagement. Further looking ahead, based on the level of active interest now in the remaining Tier 1 loans, we are confident that those will be sold in the next six to nine months. And we are complimenting that with continuing work to raise awareness of the Tier 2 loans available for sale and this particular transaction type, we have marketing efforts underway to raise awareness of this offering, and we are also working to grow, the eligible market of investors, working to obtain, if at all possible, a waiver to allow federal credit unions, to participate in purchases of these loans.

Even if, the loan holders are not members of this credit unions. So, working that angle to try to, expand the market, we do expect to have continued interest in this financing option over the longer time horizon and view it as a valuable tool to help advance climate finance. That said there's also value in complimenting any new product with other, proven vehicles to ensure that we're obtaining an optimal mix for financial stability and liquidity. To that end, we are likely to pose then our next green jobs, green New York financing event, VA bond offering, similar to those, that we underwent in 2018 through 2020, preliminary discussions had just begun, with our bond advisory group. And we look forward to working with this committee over the coming months to provide further updates on that front. We also commit ongoing to ensure that all of our financing vehicles are reviewed regularly, to make sure that we adjust as needed to ensure a successful execution and keep our cash inflows well-matched, with the program attic needs. So, in some, satisfactory progress, continuing efforts underway to complete the remaining portion of the loans and the next liquidity event beginning to be scoped out for optimal balance. With that, let me pause and turn it back over to your chair Koh. Thank you.

Jay Koh:

Thank you, Pam. Are there questions for the Committee for Pam? So maybe just two points of clarification, that one being, so we continue to see uptake through the loan street program. That's been outlined here to the 68% participation rates and there's anticipated continued, traction here. Obviously, this is an innovative new tool in the financing, toolkit for the agency. And so, in the future, we'll continue to have the flexibility to either use this or the traditional bond issuance, as we kind of assess market conditions and get recommendations from third-party advisers. Is that the right way to think about this?

Pam Poisson:

Exactly. Yes, yes.

Jay Koh:

Okay. And, just to make the, to reemphasize the other point, you're one of the key additional benefits of pursuing this innovative structure through loan street was to also continue to grow awareness of potential counterparties, diversify potential participants in climate finance, and to generate some lessons learned like this kind of federal credit authority, credit, credit bureau credit.

Pam Poisson:

It's at a credit union association.

Jay Koh:

Yeah. So, some of this is also driven, not just by kind of diversifying the range of different potential financing options for the authority, but also, to grow the overall, set of financial participants in climate finance, and also keeping with the mission of the authority overall. Is that right?

Pam Poisson:

Yes. That's accurate. Very well. Summarized.

Jay Koh:

Thank you. Okay. Are there any other questions for Pam from the committee? Right. Seeing none, thank you, Pam, and I forgot to welcome you. I believe this might be your first, Audit and Finance Committee. So welcome, as the acting CFO for the authority, we really appreciate your, your service here and you're joining us, and we welcome your participation and experience in this process. And thank you so much.

Pam Poisson:

You're welcome. Thank you.

Jay Koh:

This is an informational item only. So next on the agenda is a report on the recent activities, the internal audit from its Director, Mary Peck. Mary.

Mary Peck:

Good morning. Thank you, Jay. And welcome to the new members of the Audit and Finance Committee. I'd like to start with, the recent activities of the Internal Audit Department with respect to internal audit, 19 20 02 compliance with New York state ADA website requirements. This report management response was previously emailed to the committee members and is included in your minute. Your pardon, me meeting materials to review examine 21 different public facing webpages for NYSERDA and the NY Green Bank to ensure they're compliant with accessibility standards. The results of the analysis revealed that the sites examined for both NYSERDA and the NY Green Bank are largely accessible for people with disabilities while there were some exceptions or what are referred to as defects. In all cases, a disabled user would still be able to navigate the websites and perform the desired tasks on each webpage. We recommend correcting the level A and AA defects found to help strengthen their user experience and for full compliance with the WCA G

2.0 guidelines with regard to the ongoing, I'm calling it an after-action report, 192 03 business continuity and disaster recovery.

As previously discussed with the committee. This project was transitioned from a traditional audit to an after-action report. Given the activities of the past year, the Authority has had the opportunity to test its plans and procedures in real time. And there haven't been any significant issues which will be reflected in our final report. I also recently volunteered with the communications and marketing team to staff the Authority's booth at the New York State Fair and provided training to staff members on the authorities, travel policies and procedures, results of our internal audit self-assessment, internal audit standards required that we engage in periodic assessments of our reports and practices with external review every five years. Our last external quality assurance review was completed in April of 2017. During the past year, we've reviewed our internal practices against the standards and reviewed the internal audit policy and procedures manual.

We made changes to the quality assurance and improvement program to more closely align it with the ISE standards for our internal and periodic assessments. Other ministerial changes were also made to ensure that the revisions to our audit charter, which was approved as part of the changes in the Authorities, internal control manual at the board meeting in April of 2021, our review indicated that we are generally compliant with the ISE code of ethics and the internal standards for the professional practice of internal audit. One noted area for improvement is tracking and up of audit recommendations, and we're taking the necessary actions to improve this area. Additionally, to improve our communication with the board, we've developed a checklist to ensure that necessary items are met in the appropriate time frames. A copy of this schedule was included in the meeting materials for your review and comment regarding the required external assessment.

The meeting materials include our formal recommendation for the selection of the external reviewer, and I'd like the committees, approval to move forward, but you do not have to, approve the document itself, selection of the vendor to perform the quality assurance review. We've received two quotes in response to our request for proposals, which were provided with the meeting materials. Both vendors are qualified and will perform the QAR according to standards and will issue the final report by March 31, 2022, I've reviewed the scored proposals with the authorities, President and CEO, and the cost was the determining factor. If the committee has any comments regarding our selection, I'd be happy to discuss any issues with regard to the update, to the annual internal audit plan at the April 2021 committee meeting, the members approved the 2122 audit plan. Since that time there have been several changes. We're also adding our recent self-assessment and the upcoming QAR to more accurately reflect internal audit resources in alignment with the standards.

With regard to additions, we've added a consulting activity, which has actually already been completed to perform a vendor compliance review. We received a request from one of the program teams to undertake an onsite visit of a contractor to verify their compliance with contract requirements, with the approval of the Authorities, President, we completed the visit in July of 2021 and determined that the contractor was not intentionally misreporting any data. We verified how they were driving their numbers. And we were able to correct the error. The issue has been resolved to the satisfaction of the program team. Consulting activity with regard to continuous monitoring in coordination with the finance department, we've undertaken a project to review a

sample of invoice approvals and provide feedback to project managers regarding the potential weaknesses. The reviewed transactions will also be included in the sample for our annual internal control review over the payment process. The third item is the quality assurance review or QAR as discussed. We are at this point, removing another consulting activity with regard to a recoupment audit. We were asked by counsel's office to undertake an independent review of sales reporting and recoupment obligations with the contract. The contractor's main headquarters have relocated abroad, and the data cannot be verified. We don't have any current business with the contractor, but we will review this again as time allows at this point. At this point I'd be happy to answer any questions.

Jay Koh:

Thank you, Mary. Are there any questions from committee members for Mary? Well, let me just say two things, Mary, as you know, we have a very strong history of unqualified, external audits of the agency and also take quite seriously the internal audit function and the kind of regularized schedule of evaluations. It's great to hear the assess self-assessment process, for this year and the updates that have occurred with regard to, different parts of the control, manual, and other activities that you're engaged in. And so really appreciate your dedicated effort here in making sure that the agency's processes are moving forward smoothly and in accordance with, recommended procedures. And also, to understand that there's a self-assessment that's also occurring.

Mary Peck:

We very much appreciate the Committee's support as well.

Jay Koh:

So, thank you. Are there any other questions for Mary? Thank you, Mary. This was an informational item only. So that turns us to the last item on the agenda, which is other business. Are there any other additional items the committee members wish to discuss? Okay. Seeing none. May I have a motion to adjourn?

Frances Resheske:

Motion.

Jay Koh:

Thank you. Have a second?

Sadie McKeown:

Second.

Jay Koh:

Thank you all in favor.

Shere Abbott:

Aye.

Sadie McKeown:

Aye.

Jay Koh:

Opposed? All right. The meeting is adjourned. Thank you very much. Really appreciate your participation.