NYSERDA Audit and Finance Committee Meeting
June 22, 2021
Clean Transcript

Jay Koh:

Okay. If you'd like, you can start. Thank you. I call this meeting to order notice of the meeting and an agenda was forwarded to the committee members on June 11th, 2021 and the press on June 14th, 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 like to ask Sara LeCain, secretary to the committee to conduct a roll call of each of the committee members in attendance. Sara,

Sara LeCain:

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

Richard Kauffman:

Present.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Present.

Sara LeCain:

There are three members in attendance and we have a quorum.

Jay Koh:

Thank you, Sara. The first item on the agenda is approval of the minutes of the 145th committee meeting held on April 27th, 2021. Are there any comments on the minutes?

Richard Kauffman:

I have none.

Jay Koh:

Seeing none. May I have a motion to approve the minutes?

Shere Abbott:

So moved.

Jay Koh:

The second?

Richard Kauffman:

Second.

Jay Koh:

When Sara calls your name, please indicate whether you are 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:

Authority Chair Richard Kauffman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

Thank you.

Jay Koh:

The next item to be considered is the Annual Investment Report and the Investment Guidelines, Jeff Pitkin, the Authority's Treasurer will discuss this item. Jeff?

Jeff Pitkin:

With respect to the annual investment report, the report notes that the amount of the Authority's total investments increased by about $253 million to about $925 million. The largest increases were from the Green Bank portfolio, which increased due to additional capital contributions received to meet liquidity requirements, the cash for clean energy fund market development and innovation research activities increased primarily due to funding transfers from Regional Greenhouse Gas Initiative and also from ability to go collections for projected working capital leads that exceeded actual expenses, um, kind of on the decrease side, our Clean Energy Standard balances decreased primarily due to a timing of investments and also from a change in the process for load serving entity payments to satisfy ZEC program expenses, which overall resulted in a reduction of approximately one month's collections. The report summarizes the composition of the investment portfolio as compared to the prior year by both investment type and percentage of the total portfolio.

The report notes our overall investment income decreased from about $19.7 million to about $1 million for the year, just that day and that was primarily due to the significantly lower average market yields as compared to the prior year, our overall annual rate of return on all investments was about 0.1% as compared to the prior year, 2.9%.

The Authority's Independent Auditors, KPMG, have issued a report stating that nothing came to their attention indicating that the Authority was not in compliance with the provisions of the Investment Guidelines.

And with respect to the Guidelines themselves, no changes are proposed, but under requirements of the public authorities law, where we're asking the committee and the board to reaffirm approval of the investment guidelines.

And with that, I'd be happy to answer any questions.

Jay Koh:

Are there any questions for Jeff?

I have one. I'm just wondering as you kind of think about these adjustments, I think there's going to be discussion of the rate of return going forward for the OPEB trust and some other things just to confirm that this is kind of the range of recommendations based on market practice. And then also just to take account of the fact that we're moving into a different environment, actually, obviously we're exiting the endemic situation. And so just making sure that that's part of the inquiry that we're making of our advisors thinking through whether there's differences in the potential inflation risks going forward or interest rate environment going forward. I would assume that those sets of considerations already been factored into the recommendation to continue with the investment guidelines. Is that a fair character?

Jeff Pitkin:

Yeah. They are. And with respect to this portfolio, Jay, unlike the OPEB trust, these investments are really limited to, you know, treasury bills, treasury notes, very short term. So we're really just investing for cash management liquidity, right? And so I think we're the safety of our investments is paramount and it just meeting our cashflow needs for the various nicer programs. Um, and so, yes, I think our investment objectives would remain, you know, short maturity, treasury obligations, principal, treasury bills, you know, occasionally some treasury notes. That's very short and direct in duration. So as to not subject ups to any type of interest rate risk, if we have to sell off investments prior to prior to maturity.

Jay Koh:

Okay, well, we'll get to the other rest of the advice, the investment around with regard to the other pools of capital then that's great. Are there any other questions for Jeff at this point?

All right. May I have a motion recommending adoption of the investment guidelines and annual investment report?

Shere Abbott:

So moved.

Richard Kauffman:

Second.

Jay Koh:

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

Sara LeCain:

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

Jay Koh:

Aye.

Sara LeCain:

Authority Chair Richard Kauffman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The investment report and guidelines have been recommended for approval.

Jay Koh:

Thank you. The next item to be considered as the annual investment report for NYSERDA OPEB trust and the investment policy statement for the NYSERDA OPEB trust. Jeff, will you discuss this item?

Jeff Pitkin:

Yeah, the report summarizes the contributions, investment income benefit payments and administrative expenses for the trust for the fiscal year ended March 31st, 2021 and reports the balance of investments in total, in by asset category in comparison to the target levels that were established in the investment policy statement, the market value of the trust investments at the fiscal year end was about $70 million an increase of about $19 million from the prior year. And that increase was primarily due to the recovery of, you know, market investment rates from, from last year depressed levels. From the initial impacts of the pandemic, uh, as of the most recent actuarial actuarial valuation, the OPEB trust is currently, or was about 125% funded as compared to it. It's a whole pad liability. The total return on the trust investments was about 30% for the year. Again, reflecting a recovery from, from last year's market declines.

This past year's performance has increased the lifetime average annual return of the trust to about 8%, which is presently above the actuarial estimated long-term expected return for the trust our advisor Milliman Actuarial has recommended we revise the long-term rate of return. That's used for actuarial purposes from 6.25% down to 6%. We've reviewed those assumptions with the independent auditors, KPMG, we find those revisions to be appropriate and reflective of projections. Again, a long-term expected returns from this diversify, a pool of investments in the trust.

No changes are recommended for the investment policy statement itself. Uh, the various categories of asset classes again, are thought to be appropriate and providing an appropriate, you know, diversified set of, uh, of investments for the trust. And so with that, I'd be happy to answer any questions that you may have.

Richard Kauffman:

Yeah, Jeff, I've got a couple of questions. So is our protection in the expected rate of return? Is that reflect a general outlook on returns for markets, or does the relate to the fact that we are overfunded?

Jeff Pitkin:

It's the former. So, it's a view it's Milliman's view of long-term expected returns given the targeted allocations of the trust investments in each of these various asset classes. So effectively they've come up with a long-term projection for each asset class, and based on our weighting have calculated an overall expected rate of return that the trust should realize over a long time horizon.

Richard Kauffman:

Okay. So then thank you. So then the second question is the fact that we are over funded, what is the thought about changing the asset allocation to be more fixed income oriented? What's, I understand, you know, sort of, I guess it's always nice to have more money, but what do we, what is the benefit to the Authority of continuing to be, you know, well, over funded?

Jeff Pitkin:

So well, so the first point is the fact that we ended the year on an actuarial basis being over funded. I think we will revise our future funding because we would not continue to make contributions into the trust in periods where we're overfunded. Um, we're going to get into some actuarial, you know, accounting thing, because from an accounting standpoint, there's still going to be a measurement of an actuarily determined amount of expense for the OPEB trust for the authorities long-term, um, costs that are recognized from an accounting standpoint. So it could be that an a period, even when the trust has a surplus, or is over funded it's conceivable that it still could have an actuarily determined annual cost and expense. So I'm just separating out the accounting, the accounting treatment from the contributions into the trust. So I think that my first answer Richard, would be we would not expect to continue to make contributions during periods where we have a surplus, right, where the trust is over funded.

So that will have the effect of kind of catching up with the funding status of the trust based upon its actuarily determined liability. I think your second question is an interesting one though. Does it change in the overall status of the trust being in an over funded status? Should that give rise to a change in our stratification of our trust investments, we can review that with our investment advisor and get their input. They had not suggested to us that they thought we modify our allocations across the various investment class.

Richard Kauffman:

Well, so maybe what we can do is to see since they advise a number of entities, maybe we can see what people have done, other entities have done that are kind of as over funded as we are.

Jeff Pitkin:

Right. We can. Yes. And we could report back on that perhaps at our next meeting and, and, uh, have a more fulsome discussion on what their, what their views may be, um, consideration for any additional changes to the, to the investment policy statement. Thank you.

Jay Koh:

One, just other question following up on that, is that 125% over funding taking into account the projected reduction in, um, actuarial target return of 6% from 6.25? Or is that cap does it does. Okay.

Jeff Pitkin:

Yes, it does.

Jay Koh:

Okay. I mean, I think the asset allocation question becomes, uh, whether you do it towards more conservative set of exposures, depending on what we expect, the liability, um, payout structure to look like going forward. So I think it's worth, um, going back and make any inquiry or middlemen about how other entities that are similarly overfunded with the kind of, uh, potential pattern of, uh, forward liabilities, uh, does in terms of making adjustments, if any, or over what time period. Um, and then this is just to confirm that this portfolio has been, uh, um, subjected to the decarbonization analysis and approach that we engaged in several years ago. Is that correct?

Jeff Pitkin:

That that's right. And I think that in fact that summarized in the memorandum, I think the fossil fuel, uh, concentration is still at, uh, a reduced level, uh, uh, from what it was before we had made, uh, the changes to allow our consideration of fossil fuel interests.

Forgive me. Let me for a second, I'm just trying to find that wrote that down. Yeah.

7% of the trust investments had fossil fuel interests, and, and before we modified our investment objectives, a few years ago, we had over 6% of the trust investments in fossil fuels. So we're still maintaining a reduced level of fossil fuel interests. The fossil fuel interests that we have tend to be in asset categories, for which we weren't able to identify specific investments where, uh, fossil fuel interests, wouldn't lower levels of fossil fuel interests wouldn't have given rise to higher levels of risk concentration or reduced performance considerations.

Jay Koh:

All right. So I think just, it would be worth inquiring what, given the position we're in from a financial standpoint, whether it's possible to continue to monitor that and consider alternatives that continue to reduce the amount of exposure that we have in a long term basis. Sure. You had a question I'm sorry.

Shere Abbott:

So, no, no, no. I just, maybe I heard you incorrectly you Jeff. Cause it sounded like you said our investments are a greater percentage than before and possible.

Jeff Pitkin:

Well, if I said that, I said, I didn't, I'm sorry, a lower, a lower percentage. They, again, they've been reduced from about 6% to less than less than 3%.

Shere Abbott:

Oh. Less than 3%. Okay. Okay. And what is the expectation of going to a of of time in terms of going to zero R or R or is it possible right? Is, I don't know, is it possible?

Jeff Pitkin:

Yes, it certainly is possible. And to Jay's point, we will continue to, um, to inquire of our investment advisor to identify alternative investments in the remaining asset categories, where there are still fossil fuel interests. We could look to see if there are, um, you know, low carbon funds or no carbon funds. I think we're seeing, um, obviously an increase in the number of, of such funds. And so if those funds provide attractive, uh, risk and return considerations in comparison to other alternatives, we could further decrease the fossil fuel interests of the overall trust. So, yes, Jerry and Jay, I think, you know, getting into a 0% interest, it's certainly possible in the categories. We still have fossil fuel interests. Um, the input from our investment advisor was they weren't yet recommending that we moved to 0% fossil fuel interests because we'd be giving up again on some level of performance or risk. So we'll continue to monitor that and look for alternatives that could, could, um, allow the entirety of the trust to have, uh, to have, uh, no fossil fuel interests.

Shere Abbott:

Right. Cause I think it's, uh, it's good to have a PR as a priority looking into those opportunities consistently.

Jeff Pitkin:

Yup.

Jay Koh:

So here's what I recommend. It's so consistent with going back to having an inquiry of middlemen and our other advisors about whether there should be a consideration of re asset reallocation, uh, depending on the risk profile, given the over-funding status. We'd also ask to, to get some more input on alternatives that are even more lower carbon and a transition pathway, or at least an understanding of how that pathway might work.

Jeff Pitkin:

Yes.

Jay Koh:

Okay. Any other questions? May I have a motion recommending adoption of the NYSERDA OPEB trust investment reports and its investment policy statement?

Richard Kauffman:

I'll move it.

Shere Abbott:

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:

Authority Chair Richard Kaufman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The OPEB trust report and policy statement has been recommended for approval.

Jay Koh:

Thank you. The next agenda item concerns the financial statements of the authority and the New York green bank for fiscal year 2020 to 2021. Peter Mahar, the Authority's Controller and Assistant Treasurer will discuss this item. Peter?

Peter Mahar:

Thank you, Jay. Good morning, everyone. The members are requested to adopt the resolution, approving the annual audited financial statements for the fiscal year ended March 31st, 2021 for the authority and standalone statements. [inaudible] both financial statements include an unmodified clean opinion from independent auditors, KPMG memo in your word package summarizes the financial statement amounts that includes significant accounting estimates, estimates, which have been reviewed and found to be reasonable, independent auditors. Your meeting packet includes a detailed explanation of the financial statements. I will now highlight a few fluctuations and changes. Total assets increased by 367 million to 1.8 billion, primarily due to an increase in changes in cash and investments primarily related to the capitalization of New York green bank. And from an increase in New York, green banks loans and financing receivables. Total liabilities increased 31 million to 384 million, primarily from an increase in the net pension liability due to a change, a decrease in New York state's long-term pension discount rate and from an increase in accrued expenses due to timing of payments on certain year end liabilities, restricted net position, which is the cumulative difference between our revenues and expenses increased by 351 million to 1.4 billion, primarily from the additional capitalization of New York green bank.

And from other program revenues, exceeding program expenses, unrestricted net position decreased from 6 million to 5.4 million principally due to a higher level of contributions made to several NYSERDA program activities. Total revenues of 1.6 billion were about 259 million more than budget, primarily due to utility surcharge assessment revenues being more than budgeted, principally due to , New York and bank capital calls for liquidity needs and from higher assessment revenue for the clean energy fund and New York sun due greater than anticipated expenditures compared towards budget. Total expenditures of 1.2 billion were about 14 million more than budget, primarily due to higher program expenditures than anticipated New York sun. What block incentives costs have exceeded budgeted expectations due to due to a robust number of project completions resulted from previous delays and from the clean energy fund program expenditures, exceeding budget due to certain programs experiencing work production increases coming out of the work costs caused by COVID-19.

Your package includes separate standalone financial statements for NY Green Bank. NY Green Bank ended the fiscal year with 960 million in total assets and increase of 353 million from the prior year. This is primarily due to an increase in its funded capitalization and from an increase in the loans and finance receivables as a result of new loans issued and additional capital deployed on existing, uh, and existing transactions with regards to loans and finance receivables management continues to use a specific identification method for asset impairment. There were no impairments recorded for the fiscal year ended March 31st, 2021 as reported to the committee. Last year, we continue to have a transaction with a principal balance of about 20.5 million that remains on non-accrual status. And which has recently come out of bankruptcy proceedings. It is anticipated that the entities solar projects will be sold earlier this year, based on NY Green Bank's valuation that validated by our third party financial advisor, we anticipate recovery in full of outstanding balances owed to New York Green Bank.

Therefore we believe at this time, no impairment adjustment is required and that the receivable is fairly stated as carrying value during the year of project revenue distributions, totally 1 million were received and applied against legal expenses related to the bankruptcy and accrued interest. One additional senior secured term loan for acuity solar developer with the principal balance of 664,000 remains on non-accrual status since last year due to a change in the entity subscriber base, the company has had difficulty making timely principal and interest payments as a conservative measure, and to protect our investment. NY Green Bank has executed a block account control agreement whereby they have exclusive control over all payments received from project subscribers and uses this account to fund the quarterly principle and interest amounts due to the NY Green Bank, staff will continue to monitor this transaction closer. KPMG has reviewed management's analysis and concur that no impairment adjustments are required for these two transactions while other portfolio loans and financing receivables.

Our current obligations where we have assessed that the carrying value is supported by the discounted cash flows of project pledged revenues operating revenues, 29.6 million or 8%, eight, 8% higher than budget, which is 5.8% of average deployed capital as compared to the budgeted rate of 5.4% and 5.9% as compared to the prior year. The variance to budget is primarily due to higher operating income than what was assumed in the budget. And the variance from the previous year was primarily due to a combination of higher operating income and higher capital. And the prior year gross return on investment, which is the total rate of return before expenses decreased from 5.1% to 4.2% net return on investment net of expenses decreased from 3.1 to 2.3% and cumulative net return on investments since inception increased from 10.8 to 13.5% that didn't come from New York Green Bank for the year was 16.8 million 2.4 million higher than budget.

This is the fourth consecutive year of revenues expected in access and expenses and 56.8 million on a cumulative basis. Your meeting packet includes some additional reports issued by the independent auditors. When our government lagging standards, we are pleased to report that the water nurse disclosed no instances of non-compliance or material weaknesses found management's estimates and financial disclosures reasonable. Nope, Nope. Uncorrected misstatements in the finance financial statements, no to no disagreements with management and offered no management letter comments to address control weaknesses or suggestions for improvement. And this concludes my report and I'll be happy to answer any questions at this time.

Jay Koh:

Thank you, Peter. Are there questions for Peter?

Richard Kauffman:

Yeah, I've got a few if that's okay. So Peter, with respect to the, with respect to the Green Bank, uh, maybe can review the, again for us, the fact that we don't have a loan loss reserve and the, uh, and what, and what, um, the loans are sort of on, I dunno, what you call them on a kind of a watch list, how they compare to the, to the net revenues that the green bank has, uh, experienced so far. And the other question talking about KPMG is KPMG, the only entity that looks at the performance of the loans.

Peter Mahar:

Okay. Richard, thank you for those questions. Um, with regards to your first question regarding the loan loss reserve, um, because our portfolio is unique and it's not a homogeneous so much as maybe some other banks where there might be some, uh, uh, car loans or mortgage loans. They, we don't have a, um, a good history of knowing, um, uh, a historical weight of, um, a loss. So therefore, because of the uniqueness of these, uh, loans and secured financing structures, we actually watch their site. As you said, we actually will report a loss when incurred or when we feel, uh, a transaction is impaired. Uh, or when we find out that, uh, there is, um, some sort of, um, condition to the, to the transaction that will provide us, uh, some analysis that, uh, we feel that it should be written down, um, with regards to net revenue.

Um, we have, we've had a good track record of, of actual write-offs. So therefore, um, our net revenue, um, has been, um, higher than what we anticipated through some, some analysis and budgeting that we look at because we do plan on, uh, losses. Our track record has been fairly successful over the past four to five years. Therefore our net revenue, uh, in our projections are positive in that respect. And with regards to KPMG, um, we do also have, um, the New York Green Bank does, um, have a third party, a financial advisor that analyzes our transactions. Um, and they just went recently through a portfolio review, uh, for this past year. So we also have another eye on our, um, on our transactions and we will take their advice and confer with KPMG if some, some sort of issue does arise, uh, through their analysis of evaluations of their transactions. Richard, I think you're on.

Richard Kauffman:

I understand. So thank you, Peter. So that on the, on the revenues, after operating expenses, we have, we have been able to absorb any losses or we would expect that to be the case.

Jeff Pitkin:

Yes, yeah. To the pricing of the portfolio is set such, uh, both at the portfolio basis and even on an individual asset basis to provide for recovery of both expected, uh, operating expenses and expected losses. And in fact, our returns have exceeded that because as Peter said, but for one transaction, which we recorded an impairment today, we have not had a loss on the portfolio since its inception. We've had one transaction for which we recorded an impairment adjustment. So that has provided an amount of excess net revenues cumulatively since the inception of the NY Green Bank. Um, and we, you know, Richard you'll recall we'd reviewed this at our accounting practice of, you know, whether to record reserves loss reserves on a regular basis or record them as they're specifically identify. We originally were trying to align our practices more with the private equity funds, which I think we'd found more often than not are doing kind of more specific identification.

And as because as Peter said, are, it's not necessarily the case that we have a homogeneous population and can have a good, a good amount of predictability and losses. And, and frankly, had we done that, given our expected loss rates, we probably would have been building up reserves and for which we wouldn't have had offsetting actual losses. Uh, so we, we thought that the, and I thought, you know, we'd reviewed this with the committee and the board to determine that we felt this was, um, the appropriate accounting approach. You know, if the committee would like us to re-examine that and reconsider whether we should be reporting, you know, reserves as, you know, as we go, I know that wasn't really what you were asking Richard, but I, so I think

Richard Kauffman:

I'm personally comfortable with it. So thank you. That's good. Uh, and Peter, I have one other question, sorry. Um, on New York Sun, uh, how, how much of the change relative to budget is because of the, um, you know, the pandemic and the snapback in activity and how much was due to changes in program design. We spending more money because we need to spend more money because we, you know, need the projects need a greater incentive.

Jeff Pitkin:

No. Richard, expenditure levels in the New York Sun Program are principally driven by completion of projects because when a project installs and completes, they finally get their payment of incentive. So I think what we've seen in the marketplace is there had been some pausing. Some of it may have been value stack issues, right? The marketplace was kind of stalled a little bit on whether to complete certain projects. And I think we're now seeing a clearing of some backlogs of projects that had been committed, but had not completed installation. So we saw, I guess I would say it in the form of, we saw a heavier amount than we might've expected of projects reaching their completion status and therefore being eligible for payment of their project incentive. So it's kind of a timing thing of completion of project installation that then is driving the amount we're recording as an incentive. It's not a change in the design of the program or a change in incentive levels. It's more a change of the timing of projects being completed relative to when we commit funds to support those projects.

Richard Kauffman:

OK. Great. Thank you.

Shere Abbott:

So, Peter, can I ask you just, I forget forgive my ignorance here, but, but can I ask you a broader question about the community solar? Um, so you mentioned this one company where the P and I challenges is that, is that emblematic of the, of others or is that just a unique case?

Jeff Pitkin:

My understanding is it is a unique case where the, the, their base, um, uh, was reduced or the past year for various reasons. Um, and there, so therefore their, um, revenue stream has been lower, uh, causing, uh, the company has a whole lot of projects as a whole to be able to make tiny principal and interest. Um, they are looking at, um, again, creating the control account that we have, where we're now managing the account and receiving all the payments. We're able to secure our, our transaction, but they're working closely with that and monitoring, uh, the company. And at the moment they believe that, you know, um, if there's hope that, you know, uh, we will continue to see a path of, of current payments going forward, but they're, they're kind of on a watch list at the moment.

Shere Abbott:

Okay. So it's, it is unique. It's not a.

Peter Mahar:

Yes. Yes.

Jay Koh:

Shere, do you have other questions?

Shere Abbott:

Nope. That's it.

Jay Koh:

Thanks. Oh, sorry, Shere.

Shere Abbott:

No, thank you. It's very, very good reports.

Jay Koh:

Um, thank you. Uh, so Peter, only two questions for me. One is the trend line on, um, on, uh, net margin and gross margin reductions that we're seeing at the NY Green Bank. Is that expected to continue or is that simply an artifact of the different types of transactions that the bank is currently engaged in the New York Green Bank program has engaged in at this point in times?

Peter Mahar:

I think we can say it's continually that we continue to, um, invest in secure, you know, transactions. I think we will, we'll see that trend to continue. Uh, if our net revenue continues to increase and we continue to deploy, uh, uh, capital at the pace where we're, um, pointed out, I think our trends will continue as we've seen.

Jeff Pitkin:

So I will make one caveat to that though, Jay, um, you know, they, the Bank of America monetization, uh, transaction that the committee approved at the last meeting and that we're expecting to close in the next month, as you'll recall that structure was taking 20 or so of our assets and pledging the repayments from those assets to a purchaser who will purchase the repayments from those assets and use it to secure a debt at Bank of America. So on a perspective basis, uh, subs a fairly substantial amount of our interest revenue from the portfolio in the future state after closing will no longer flow through green banks financials until such time that that debt obligation is paid off effectively.

What we've done is we've monetized, right? The future cashflow streams for an upfront amount of proceeds that we're receiving. So I just want to caution the committee and the board. And, you know, we've talked about this with Andrew and the team for the, for the fiscal year that we're in the aggregate amount of net income is undoubtedly going to be lower than it was for the year that was just ended. And it will remain at a lower level until such time that we are able to take the proceeds that we realize from the monetization and reinvest those proceeds and our returns on that money. Right. So, so I, I don't mean to...

Jay Koh:

Well that's very clear. I was asking a question about the trend line on net margin and gross margin, uh, going from one to 4.2 and 3.1 to 2.3 of my notes are correct. And whether we expect that to continue, or whether it's simply an artifact of the current set of transactions, which are varied that the NY Green Bank is engaged in. So it was that like an interest rate environment are like a reflection or is it just, uh, a mix of, um, lending activity that's being reflected there and are we are expecting that to continue? Cause that'll change. Forward-looking, you know, calculations of how much net net effective net revenue is being generated at a bank.

Jeff Pitkin:

So that issue, Jay, was also impacted by, um, non-operating investment income revenue because again, the Green Bank received monies for liquidity for its capital, but was reinvesting it now at a rate of 0.1, 2%, right? Because those are treasury investments in the past year, we were running two, 3% on, um, you know, on treasury obligations. So the Green Bank's operating performance for the year just ended, has been impacted by a reduction of non-operating investment income revenue.

Jay Koh:

Okay. Then, so given if that environment was stable, you'd expect that trend line to just flatten out, effectively, depending on our mix. So it's a, it's a combination of investment income in a more, uh, flat, uh, interest rate environment and the actual for programmatic lending activity that the green bank program is engaging. Is that right?

Jeff Pitkin:

That's right. Because the, on a, on an operating revenue basis of like deployment of actual capital transactions, I think the gross yield on the portfolio has, has not changed dramatically from, from, from prior years. So it is this net number that's inclusive of, of investment income on, you know, non-operating investment income. That that is kind of a depressed level of, of investment income.

Jay Koh:

Okay. And is it a fair characterization to say that we've engaged in over, uh, close to, I think we've exceeded a billion dollars in lending activity at the NY Green Bank and the current time there's only two, uh, transactions that are out of that entire portfolio that are on non-accrual and not add the current analysis suggests that they do, they are not subject to an impairment charge. That's right. Okay. All right. I have no further questions. Thank you very much um, for that report.

Are there any other questions at this point in time?

Okay. Um, we will consider a resolution recommending approval of the financial statements after we have met in executive session with the independent auditors. May I have a motion to convene in executive session to discuss the Authority's financial condition?

Shere Abbott:

So moved.

Richard Kauffman:

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:

Authority Chair Richard Kauffman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The resolution to move to executive session has been approved.

Jay Koh:

Thank you. The members will now enter executive session during that time the webcast will remain up. Upon our return, we will reconvene the meeting. Thank you please enter the executive session,

Richard Kauffman:

No action was taken during the executive session. May I have a motion recommending adoption of the financial statements of the Authority and NY Green Bank?

Shere Abbott:

So moved.

Richard Kauffman:

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

Sara LeCain:

Sorry. Thank you. When I call each name, please indicate your vote. Authority Chair Richard Kaufman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

Okay. The financial statements for the Authority and NY Green Bank have been recommended for approval.

Richard Kauffman:

Okay. Thank you. All right. The next item to be considered is the appointment of KPMG, LLP as the Authority's independent auditors for fiscal year 2021-2022. Jeff Pitkin, will you discuss this item?

Jeff Pitkin:

Audit services for a term of up to five years, uh, three proposals were received and they were evaluated by an internal scoring committee, which ranked KPMG's proposal as the recommended from KPMG will perform a financial statement, audit and deliver opinions for both the authorities, financial statements and the Green Bank stand alone. Their fees and expenses will not exceed $135,500 pursuant to their proposal. Um, this would represent the first year of five and I would just also remind the committee that there are no prohibitions under a public authorities law for, um, uh, from rotation. Uh, KPMG has served as independent daughters for 10 years now, and they comply with requirements at the public authorities law with respect to the lead audit partner. Uh, Mr. Dunbar has served as lead audit partner for the last four years. And after this next year's audit KPMG's proposal proposes to rotate their audit partner to Dean Giesler, who was a prior partner who led our audits. And with that, I'd be happy to answer any questions.

Richard Kauffman:

All right. So Jeff, just so again, so I understand while there's no requirement, you're saying it's happening anyway. We're not changing the audit partner.

Jeff Pitkin:

Yes. That's right. Well no. That is a requirement. That's a requirement that they can't have the same lead audit partner for more than five years. So this next year will be Marty Dunbar's fifth year serving as lead auditor.

Richard Kauffman:

All right, got it. Sorry. All right. I have no other questions.

Shere Abbott:

I have no questions.

Richard Kauffman:

Okay. In that case, Shere, may I have a motion recommending appointment of KPMG, LLP as the Authority's independent auditors for fiscal year 2021-2022.

Shere Abbott:

So moved well, I will second it when Sara calls your name, please indicate whether you are in favor by stating aye or opposed by stating no

Sara LeCain:

Thank you. Authority Chair Richard Kaufman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The appointment of the independent auditor for fiscal year 2021-2022 has been recommended for approval.

Richard Kauffman:

All right. Thank you. Now, the next item on the agenda is the annual bond sales report. Jeff, will you discuss the side?

Jeff Pitkin:

Sure. The report indicates that during the year, the Authority completed one new issuance for conversions and no refundings, and the report also includes a schedule of bonds that are outstanding, which total about $1.6 billion. Happy to answer any questions?

Richard Kauffman:

I don't think, I don't think I have any, well, I guess this was as expected, Jeff?

Jeff Pitkin:

Yes.

Richard Kauffman:

Okay. And looking forward?

Jeff Pitkin:

Looking forward. So for the utility financings, the utility bonds that remain outstanding are heavy already maturity days. And those utilities may come back to the authorities seeking refundings or conversions or through the remaining maturity of those bonds. Another portion of our bonds that are outstanding are bonds that we've issued for Green Jobs - Green New York Program. Those bonds all have maturity dates and those bonds will continue to pay down. And then I'm going to provide an upcoming report of our recent transaction for the Green Jobs - Green New York Program to do a loan participation sale rather than a bond securitization.

Richard Kauffman:

Okay. Thank you, Shere anything?

Shere Abbott:

No. No questions.

Richard Kauffman:

Okay. Then may I have a motion recommending approval Authority's annual bond sales report?

Shere Abbott:

So moved.

Richard Kauffman:

Second.

Jay Koh:

Second.

Richard Kauffman:

Oh, Jay you're back.

Shere Abbott:

Jay's back.

Richard Kauffman:

Okay. Jay, you can take over.

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. Committee Chair Jay Koh.

Jay Koh:

Aye.

Sara LeCain:

Authority Chair Richard Kauffman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The annual bond sales report has been recommended for approval.

Jay Koh:

Okay. Thank you. And thank you, Richard, for stepping in. The next item on the agenda is the review and approval of the Audit and Finance Committee Charter. The item will be presented by Peter Costello. Peter?

Peter Costello:

Thank you, Committee Chair Koh. Pursuant to the Public Authorities Accountability Act of 2005. Each of the Authority's Committees adopted charters setting forth each committee's responsibilities. One of those responsibilities is to periodically review its charter and determine what if any amendments need to be made. These recommendations would then be presented to the full board for approval. A copy of the current audit finance committee charter was included in your meeting. Materials management is not recommending any changes to the Audit and Finance Committee Charter at this time. Happy to take any questions or comments.

Jay Koh:

Thank you, Peter. Are there any questions or recommended changes to the charter?

Richard Kauffman:

So Peter, I'm assuming that you've benchmarked this relative to other, uh, authorities in their charters.

Peter Costello:

Yes, yes. So we, we do, uh, continue on annual review of not only that benchmarking, but also monitoring any legislative changes, any guidance that comes out of the Comptroller's Office, any guidance that comes out of the Authorities Budgets Office. And with that, we don't have any recommended changes.

Jay Koh:

Okay. Shere, any questions or recommended changes.

Shere Abbott:

No changes.

Jay Koh:

Thanks. And I know that this process is reviewed annually if I'm not mistaken. Is that right? Peter?

Peter Costello:

Yes. And the annual review is required by law.

Jay Koh:

That's great. Thank you. Do we have a motion recommending approval of the Governance Committee or the sorry, Audit and Finance Committee Charter.

Shere Abbott:

So moved.

Richard Kauffman:

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:

Authority Chair Richard Kauffman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The Committee's Charter has been recommended for approval.

Jay Koh:

Thank you. The next item to be considered is the appointment of an Acting Internal Control Officer Jeff Pitkin will describe this item.

Jeff Pitkin:

Yes. Uh, with my, uh, impending retirement, uh, we've recommended to the Committee for its consideration, the appointment of an Interim Internal Control Officer Peter Maher, our Controller and Assistant Treasurer. Peter has been with the Authority and understands its internal control systems and can continue to carry out those duties and responsibilities until the Board appoints a successor Treasurer or Chief Financial Officer. Thank you.

Jay Koh:

Are there any questions for Jeff?

Richard Kauffman:

If we vote no, Jeff, does this mean you stay?

Richard Kauffman:

Sorry. Sorry, Richard. No.

Jay Koh:

There's something like the 13th amendment I think that's still.

Richard Kauffman:

Yeah ok.

Jay Koh:

This is, this kind of practice to make sure that there's an acting internal controls. Officer comports with our process and procedures and reasonable practices are your characterization of this.

Jeff Pitkin:

That's right.

Jay Koh:

Okay. May I have a motion recommending appointment of Peter Mahar as the Authority's Acting Internal Control Officer.

Shere Abbott:

So moved.

Richard Kauffman:

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:

Authority Chair Richard Kaufman.

Richard Kauffman:

Aye.

Sara LeCain:

Shere Abbott.

Shere Abbott:

Aye.

Sara LeCain:

The appointment of Peter Mahar as the Acting Internal Control Officer has been recommended for approval.

Jay Koh:

Thank you. The next day on the agenda is a report on the Authority's transaction through LoanStreet. Jeff Pitkin, will you discuss this item?

Jeff Pitkin:

Yes. At the Committee's last meeting, you approved our ability to sell participation interests in Green Jobs - Green New York Loans and we completed an initial offering, uh, closing on June 15th and wanted to provide an informational report on how that went. We held a pre-sale webinar on may the 19th with participants, with 70 participants from credit union institutions and banks across the country. The Green Jobs - Green New York loan portfolios were offered for sale in four separate pools under the terms that were approved by the Committee. The pools, the pools offered, segregated pools for different underwriting standards and whether or not they had been issued at a 0% interest rate as we had done for last year for the program participation interests were received from seven institutions, totaling $24.4 million, or approximately 35% of the total balance with principle proceeds of about $21.2 million that will result in an accounting loss on the sale that we talked about that at the April meeting and do recall that accounting loss, principally results from the sale of loans that had a 0% interest rate, which were sold at a discount to the purchasers, but provided us a more significant recovery of proceeds than we expected.

We would have realized had we done a bond securitization, um, as part of our goal of expanding climate finance among local and community and regional bank lenders, uh, the sale generated interest broadly, uh, from many states, uh, the capital diversification provided by these institutions provides us with a good source of liquidity going forward. Participation interest are still being considered by a number of institutions who may purchase participation interest in additional amounts up to the total amount available. We offered up to, uh, 90% of our balance. And so again, we've only sold roughly 35%. Um, so a number of institutions are still considering and may submit, um, purchase it, purchase a participation interest, um, which we will continue to offer until such time that the offering is fully subscribed overall. We're, we're generally pleased with these results, you know, particularly given that we were a new institution onto the, onto the loan street platform, that platform, uh, typical users were other credit unions and banks.

So it took a little bit of effort for those institutions to be, um, to run the ground, their regulatory issues of buying participation interest from a governmental entity, as opposed to another credit union or bank. Um, and at the end of the day, credit union regulations limited, uh, limited the purchasers to only being state chartered credit unions because under the, uh, under, uh, national regulations, federally insured credit unions may only purchase participation interest in loans for which the underlying borrowers are members of their credit union. So our purchaser base was substantially reduced by that federal requirement. Um, so given that we were, you know, a new entity offering, you know, slightly different asset classes than we're typically, um, purchased generally assets with a longer duration, you know, differing interest rates, credit characteristics, I think overall we're generally pleased with these results. Um, we're going to continue our efforts to expand the base of credit unions that that could participate. Um, we're, we're trying to address some of those, the federal regulations that I mentioned that, um, only permitted state chartered credit unions to participate or seeing if there's a, uh, a potential pathway to allow federally chartered credit unions participate. And we see participation loan sales, and as, as an important source of liquidity for the program going forward, um, this is just an informational report. Doesn't require any action by the committee, but I'd be happy to take any questions or, or hear any feedback.

Jay Koh:

Are there questions for Jeff?

Richard Kauffman:

So Jeff, when you talk about a future source of liquidity, you're talking about sort of once the sort of setup work has been done, being able to come back to the platform with those institutions, is that correct?

Jeff Pitkin:

Yeah I am. And we would, to be clear, we would come back to the audit finance committee to seek approval for another loan participation sale much like we had done at the April meeting. So I'm not yet. So I just, I mean to say, and at that time, Richard, I think we'll continue to take a look at whether, you know, pursuing a bond securitization route versus a loan participation sale route, which of those two pathways we think would offer a better source of liquidity or better market execution.

Richard Kauffman:

Yeah so i think that would be you know a good thing to do. I guess I'm just wondering if, uh, whether, uh, I don't, cause I don't know enough about this platform, whether, how, how much the, um, um, how much participants come and go. So in other words, that are you, if you're going to get the advantages of ongoing liquidity and pricing and speed of execution, all that, whether you have to feed that feed that beast more regularly than you do the bond market.

Jeff Pitkin:

Yeah. We've talked to the representatives for LoanStreet and they, you know, they indicated that we don't need to be a regular seller. Uh, there's a large number of institutions who purchase per purchase participation, interests on their platform. Um, so, you know, we could sell once a year, twice a year, four times a year, I don't think we're yet ready to make a decision of, you know, about the next sale or even if there is going to be a next sale. Because again, I think we will also continue to look at whether a bond securitization approach could, could offer us a better execution.

Richard Kauffman:

Okay. So that could be considered in the sort of same cadence then of, of a bond sale.

Jeff Pitkin:

That's exactly right.

Richard Kauffman:

Okay. Thank you. Good.

Jay Koh:

So I'm going to share if you had questions. Uh, I had two, one was what was the anticipated participation rate? I mean, obviously up to 90% was offered. We proved a certain scale of this with the anticipation that this would be actually deployed. And so, um, the, the question is, uh, is about that. And then secondly, um, you know, is this simply kind of, you know, growing pains a little bit? Cause I, the, the, it seems like it just kind of state charter versus federal chartered credit union restriction is something that may not have been fully anticipated. Um, so just would love your thoughts about that. I mean, it's great to see additional mechanisms to provide liquidity and to engage folks with this kind of credit out there. And certainly recycling of the, uh, capital for the New York green bank is welcome. Um, you know, I think it would be useful to do the after action analysis when you figure out how much participation is really there to look at the relative cost of setting up these structures versus bond issuance or other mechanisms for liquidity, but the answers to those two questions.

Jeff Pitkin:

Yeah. So honestly I think we had expected to be fully subscribed. So on, on one level, having only sold 35%, rather than 90%, isn't where we thought we were going to be. Um, now maybe in our expectations were led by, by, you know, Logan street, long street had, you know, had heard a good deal of interest from a number of institutions who were kind of interested in the assets that we were gonna be offering. Um, the feedback we heard from lone street was, uh, the institutions who considered, but didn't buy it, wasn't about pricing. I think for them it was more, uh, challenges within their institutions and kind of getting credit approval. Um, and again, this, we were a little bit of an odd dock, not something that we're used to seeing they're, they're used to buying interest from other credit unions. So I think the fact that if we were a governmental entity, you know, that was just an extra hurdle for, for an institution to kind of overcome and to get, to get comfortable with.

So, and some of those have said, we might consider the next time around and we, we took a pass on this one, but maybe we'll be back at nicer to offers more in the future. You know what I mean? So, um, so I think we're also waiting to see what additional orders may come in. Hopefully we'll get fully subscribed. If we saw a full subscription, we'd feel, we might feel then much more confident about going forward with another loan participation sale. If we ended up with these kind of lukewarm results, I guess we have to take, take stock of that and consider which execution pathway is the best for the future.

Jay Koh:

That's great. Well, that's helpful to know. I mean, um, yeah, I, I would recommend that we do kind of a comparative cost analysis. There's obviously costs to set these things up and overhead to maintain them particularly there, um, different types of mechanisms. And so we want this to be a reliable way of getting liquidity. It's something we should have a better understanding of what happens to the remaining not taken up, uh, interests are they kind of is this like cross-collateralized against the entire portfolio and then we just kind of hold the rest of the position or

Jeff Pitkin:

So, so these, these pools are, these four pools are segregated from all our prior loans that were pledged to prior bonds. So these are separate pools, right? You raise a great question, Jay, like if the rest of the, um, uh, the rest of the percentage doesn't sell than our options are, are either holding to maturity, uh, or it's possible that the participation interest that we hold the 65%, if you will, that we hold could be pledged in some future bond securitization. Um, so I don't think we're yet ready to, to again, decide what we're going to do with our share, because we don't yet know what our final share is. We know at the moment we hold 65% of these fools, we're hoping, we're hoping with some passage of time that more institutions will buy and our percentage will go down and then we can decide what to do with that residual portion that we still hold. And whether we just hold it to maturity or whether we might consider reoffering it on the platform and at perhaps a different pricing, see if, you know, just reoffering, uh, could get, could get more buyers. And we'll also continue to pursue the potential for the eligibility of federally chartered credit, but you use to purchase participation interest because that would just expand the potential buyer base. Okay. Any other questions?

Jay Koh:

This is an informational item only. Are there any other additional items the committee members wish to discuss? Hearing none, may I have a motion to adjourn?

Richard Kauffman:

So moved.

Shere Abbott:

Second.

Jay Koh:

All in favor?

Various:

Aye.

Jay Koh:

Opposed? This meeting is adjourned. Thank you very much.