NYSERDA'S 158th Audit and Finance Committee Meeting
January 29, 2025
Clean Copy of Transcript

Richard Kauffman:
I call this meeting to order notice of the meeting and an agenda was forwarded to the Committee Members January 17, 2025 and to the press on January 21, 2025. This meeting is being conducted by Video Conference Authority. Will post a video and a transcript of this meeting on the web firm that we have quorum. I'd like to ask the Committee Members to introduce themselves. Richard Kauffman, Chair of the Authority.

Sherburne Abbott:
Shere Abbott, Member of the Committee Member of Authority.

Richard Kauffman:
Thank you, Lindsey?

Lindsay Greene:
Lindsey Green, Member of the Committee and Member of the Authority.

Richard Kauffman:
Thank you. I'd like to note for the record that we have a quorum,

Jen Hensley:
Jen.

Richard Kauffman:
Oh, sorry Jen, I'm sorry.

Jen Hensley:
Jen Hensley. Member of the Authority, the Committee.

Richard Kauffman:
Okay, I'm sorry. Thank you. I'd like to note for the record that we have a quorum, but that Lindsey Greene is participating by video conferences per the extraordinary circumstances exception under the Open Meetings Law and our By-laws. Lindsay's participation will count for votes but will not be included in the count for quorum. No. Okay. Thank you. Alright, the first item on the agenda is the approval of the minutes of the hundred 57th Committee meeting held on October 23rd, 2024. Are there any comments on the minutes there being none? May I have a motion approving the minutes? Thank you. Second?

Sherburne Abbott:
Second.

Richard Kauffman:
Thank you. All in favor?

Members of the Committee:
Aye.

Richard Kauffman:
Any opposed? The minutes have been approved. Alright. The next item on the agenda is a resolution recommending approval of the issuance of bonds to finance the Green Jobs-Green New York program. Pam Poisson the Authority's Chief Financial Officer, will discuss this item. Pam,

Pam Poisson:
Thank you Chair. Good morning Members, the Committee Members are requested to recommend the adoption of a resolution recommending Board approval to authorize the issuance of the residential clean energy and energy efficiency financing Green Revenue Bonds series 2025 A in accurate principal amount not to exceed $60 million. This bond issuance allows for continuing financing residential energy efficiency and clean energy loans as issued through the Green Jobs-Green New York program. An approval motion and supporting materials are included in your Board packet. As a brief context, the Green Jobs-Green New York program provides New Yorkers with access to energy assessments, installation services and low interest financing for efficiency improvements and clean energy installation.

Yes, the Green Jobs-Green New York Act of 2009 and subsequent amendments directed the Authority to establish a revolving loan fund that would provide loans for such improvements in homes, multi-family buildings, small business facilities, and not-for-profit corporations. The ACT initially funded the program with $112 million proceeds from the regional Greenhouse gas allowance program and over time it has been further supported with some new funding via RGGI allowance, auction proceeds and especially by recycling capital to leverage that initial funding. One way of recycling capital that's been cost effective is to issue bonds collateralized with the loan repayments. This has proven to be useful and in fact our upcoming issuance will for the first time include some loans that were previously used as collateral for an earlier issued bond, which since paid off providing additional leverage to that end nicer to proposes to continue its regular roughly annual practice of bond issuances at some point within the upcoming 12 months.

The exact timing will be determined in consultation with our financial advisors and underwriter and consider market conditions and liquidity needs. At present, we're aiming for a mid spring issuance, but that may shift depending on inflation prevailing interest rate trends and other market factors. The last three bond issuances incorporated heat pump loans as part of the collateral in addition to energy efficiency measures and solar pv. That update has been positively received by the market, so we plan to continue this practice to help drive acceptance of building electrification technology. We've increased the share of Green Jobs-Green New York loans for heat pumps such that for this upcoming bond issuance about 19% of the newer loans are for heat pump installations and that upcoming issuance will of course be comprised of high credit quality loans and structured to provide a viable path so that we have a fully subscribed and market competitive bond offering.

Your materials include supporting details. Let me highlight just a few key dimensions. The proceeds, as you know, will be used to replenish the revolving loan fund, which is in turn used to issue more loans to finance the installations of energy efficiency, solar PV and H pumps. And that's all consistent with the Green Jobs-Green New York legislation and the CLCPA goals. The bonds are thus anticipated to be labeled as green bonds and verified as such through a second party opinion. The total principal amount, excuse me, is not to exceed $60 million. With a maturity of 20 years, the bonds will be fixed rate federally taxable and based on the interest rate of the underlying loans will carry a weighted average interest rate not to exceed 7.5% with the exception of the principle. That is all consistent with the last such offering. Similarly, the bonds will be secured by a pledge of loan repayments including the anticipated levels of prepayments and defaults and it's structured to provide excess revenues relative to scheduled principal and interest payments on the bonds essentially over lateralized for assurance.

It will be structured to meet the single A rating category as established by Kroll Bond Rating Agency and the bonds will be underwritten by Ramirez & Co., which was competitively selected and approved by the Board to provide underwriting services for this purpose. These are limited obligations of the Authority. They are payable solely from the loan prepayments and not to beyond. And finally, from a process standpoint, the bonds will as typical require the approval of the Public Authorities control Board and certain aspects will require approval by the Office of the State Comptroller and the New York State Department of Tax and Finance. As written, the issuance may occur as late as January 28th, 2026. That is by design to afford a certain amount of flexibility in the issuance timeframe. And we have identified that that is consistent with similar organizations. Either similar organizations either do not establish an end date at all or they establish something that's in matters. And you saw further explanation of this and the map. So let me pause there. I imagine you may have some questions. What can I be helpful with?

Richard Kauffman:
You want to also introduce yourself?

Jay Koh:
Yes, sorry, I apologize for being late Jay Koh Member of the Board and Member of the Committee or Chair of the Committee. So I have only one question here which is just wanting you to understand whether we have in some way anticipated or planned to as one of the factors that we evaluated in the decision to issue these bonds. Not just market conditions but the impact of whatever the current pause on domestic federal spending is on any of our programs. I mean that we understood what the implications are yet on that or will we anticipate management factoring that into the decision and the structure of those bond issuances?

Pam Poisson:
Yes. Let me take that in two ways and appreciate the question. So with respect to these bond issuances, this is a process that started several months ago necessarily and is part of our typical course of to provide liquidity and ongoing support and would not see that changing with the updated activities that are now coming to the fore. I think it is, however, a question of timing that we are certainly reflecting upon, we want to make sure that we have funds that will be available to continue this loan process uninterrupted. There is likely to be an even greater market need for this and obviously looking at the market conditions as they will affect the advance rate in other

dimensions so that we get the maximum return that we can for NYSERDA on this. Thank you. I think there are broader questions that we'll have time later on the agenda to discuss with respect to we'll be discussing the macro situation at our Board meeting.

Jay Koh:
Great.

Richard Kauffman:
So Pam, I've got a few questions of course. I think the first question is there, is there anything different in terms of the structure of this bond relative to prior bots? Anything material?

Pam Poisson:
Nothing material in terms of the structure?

Richard Kauffman:
So then the next question that I have goes to, so the advance rate is going to be equivalent in this then

Pam Poisson:
We are expecting it to be roughly equivalent to last time around.

Richard Kauffman:
So I don't know since these are long maturity instruments we hold the residual right and the bots. So I'm just wondering if there have been, in terms of the past bond issuances, if those bonds have performed such that we need to be concerned about the we're over collateralizing, whether there help me out here, whether there's an issue with we're going to get the value back from the overcollateralization or not. We haven't been tracking that, so we've been presuming I think that we will get recovery on the overcollateralization.

Pam Poisson:
I would say that's true and a couple of points that I think are relevant in response to that question. Thank you for that is first because of the fact that these are still not considered necessarily well, well-seasoned loans, there is an element of this that is always going to require certain over collaboration. To your point though, we work very closely with the underwriters and the financial advisor to structure the specific tranches within the series and we also include the turbo redemption clause so that if they pay off faster than we expected, we have some latitude to actually bring down the bond capital more quickly. So that allows us then as we are in this instance to actually utilize those loans. But I guess bottom line, the total, what we've seen in terms of the yield, really the arbitrage yield is that this is coming in around six and a half percent based on the structure that we expect to have in place and prevailing market rates. And that is a significantly better return than if we were for instance to secure a line of credit for this. So I think it's, yes, we keep refining the structure and we will necessarily need to do so and it's also a lower cost way of financing this than other alternatives.

Richard Kauffman:
No, I understand of course the logic for doing this. What I'm asking for is that is whether we have any evidence yet in the securitization vehicle of the value or the integrity of that portion that we retain or it's still the bonds have not come to the end of their life so that we don't

Pam Poisson:
Yeah, I hear. Okay. I don't think that we have sufficient data on that. <inaudible> also works.

Richard Kauffman:
I've been ask my question a while, but somebody help out.

Jay Koh:
Let's try. Let's try finish. You are reusing some of the prior over collateralized bonds in this new issuance, so there is some evidence that the reserve was more than sufficient or was at least sufficient enough to actually perform as model

Pam Poisson:
In this instance. Yes, and I guess one other thing is that I think is we are looking at this, we are very closely tracking any default incident that we are having. So it's kind of a constant recalibration as to what's going on with market conditions in total as well as the past history.

Jay Koh:
Maybe a way of asking the question might be is it fair to say that in the design of the new issuance, the past performance from a collateralization and default and performance basis will be factored into the design of this new issuance based on prior experience with this program?

Pam Poisson:
Absolutely, yes.

Jay Koh:
Much more success. Thank you. And if it's possible to generate some information about how the modeling of the prior bond issuance has happened, I think it would be interesting in a future Audit & Finance Committee just to get that report out just to understand what the trendlines are. I think the major two or three concerns that you would think that would push the performance of the pool outside of where you're concerned in the model would be some kind of correlated interest shock, right? So I don't remember when we did the last issuance, but there was 600 basis point rise in less than 18 months, which is unprecedented, which could have triggered all kinds of different default loss changes. It sounds like it hasn't in a way that's materially affected or at least broken out of the range. Otherwise we wouldn't be able to reuse the collateral that we have sort of a anecdotal matter. Is that fair to say?

Pam Poisson:
That's fair to say.

Jay Koh:
Okay. Then the other two pieces might be either some major programmatic impact to the underlying right where or digest what the current status of federal, state and other kind of energy market implications are going to be. Where you might have different use cases or payment cases based on how attractive or attractive energy prices get or housing prices or whatever else is related to the underlying drivers for the performance of assets. So there's interest rate environment, there's the changes in policy or changes in these kind of assets and then any other exogenous correlated factors that might actually affect overall performance. But just to sum all that up, is it fair to say those types of factors have been evaluated looking back on the prior performance of these assets and will be incorporated into the design of this new mission?

Pam Poisson:
Yes. Yes, that is correct and I think it's fair to say from the work that we've both from the team itself and also our financial advisor, they do an excellent job of looking at the markets and then also differentiating the specific types of products that are collateralized here so that we get an optimal projection.

Jay Koh:
So to sum that up, just as sort of guardrails around the performance error like indicators, there's rough indicators. The fact that we are reusing collateral from prior bond issuing suggests that the reserves were at least substantial amount to actually enable the performance of the prior issuance and then the fact that the underlying rate here is a more efficient lower cost way of actually financing these suggests that the program is designed in a way that actually has resulted in the financial objective that the agency has designed it for is

Pam Poisson:
I would agree with that interpretation. That's what our data is suggesting.

Jay Koh:
Okay, great. Well, I would suggest just this, it would be less predictable, let's say environment that we're in right now, that there'd be extra attention paid to the potential for poorly exogenous shifts. Any other questions? May I have a motion to recommend approval of the issuance of bonds to finance the Green Jobs-Green New York program?

Lindsay Greene:
So moved

Jay Koh:
A second. All in favor?

Members of the Committee:
Aye.

Jay Koh:
Opposed? Thank you. The financing of the Green Jobs-Green New York program is recommended for approval. The next item. Thank you Pam. The next item on the agenda is report on the Authority's most recent risk assessment and will you discuss this item?

Pam Poisson:
Yes, thank you, Chair This is an informational update on our recent risk and controls review and outcomes and an update is what's coming up ahead. So consistent with what you have likely read in NYSERDA internal controls manual as well as with New York State Comptroller Standards for internal controls. NYSERDA regularly reviews its risk and controls helping to ensure that the risks are understood and that we have controls that are appropriately matched to the relative risks as previously reported to this Committee in an environment of increased operating risk and in keeping with best practice, we conducted a more comprehensive periodic full scope risk and control self-assessment in 2023 that used an approach that was largely consistent with the COSO framework. So likelihood and probability you're probably very familiar with that. That initiative was designed to help protect from potential threats and vulnerabilities that may threaten the achievement of our mission.

Integrate activities, plans, attitudes, policy systems and efforts as per state guidance and keep internal controls well matched to risks, so not over or underweighted. We continue to make good progress on the relatively minor but cross-cut items that were prioritized to be addressed after that last assessment. You may recall that at that time the process did not identify typical controls issues that any organizations do see. However, we did find a few instances where we wanted to have additional mitigation, mainly for things that focus on the longer-term goals that we are seeking to achieve. But your typical areas that organizations encounter risks such as cyber risk, financial risk, public health, reputation were shown to be very well controlled and obviously we want to make sure we're keeping current with this assessment. So while we've made good progress on those, we are also reassessing the landscape as it is ever changing and particularly considering not just what's going on in a broader economic and political level, but rapid technological advancements and many other things that we see evolving in the state.

We want to keep bolstering that risk identification. To that end, we are going to be updating the risk and control self-assessment in the coming year and that will again utilize that likelihood and impact assessment. We are going to utilize the existing risk registers that we have, but also supplement it with some specific inquiries and three areas of focus that we've identified as warranting additional scrutiny. One naturally climate risk. It's being addressed through a parallel deep dive of which I think you may be aware that is well underway in assessing climate risk and resiliency for all of our programmatic work to ensure solutions are as durable as possible. We're also going to be focusing at a closer level looking at AI risk that is being tightly managed in line with our recently adopted policy, which is in itself in turn grounded by the broader policy that's been rolled out by New York State Information Technology services.

We are also keeping in mind the recently passed New York State Law called the Loading Act, which ensures additional safeguards around its use. And so we're working not just from a policy capacity though, but to ensure that every employee understands both the opportunities and risks associated with the use of AI and their respective responsibilities. This began with a mandatory review and signed acknowledgement of our policy and it's going to move soon to more complete training to ensuring the AI use is very well-informed and overseen by human judgment. Any staff requests to begin using AI enabled technology are centrally managed and carefully reviewed by a cross cutting team, including it information security, data governance and legal. And the third area of focus just given the heightened dollars being transacted associated with speaking, keep an eye on fraud potential. We don't necessarily see specific additional threats there, but want to make sure that we continue to be excellent public stewards of the funds with which we are entrusted. So that will be also part of our next round with a closer level of review there. I would just note that we continue to have this guided by across cutting team and we will continue to provide updates back to this Committee.

With that, I think I will pause because I know that we have some further updates to cover in this meeting. Are there any questions on our general risk framework or the next steps my will be taking to ensure that that is updated?

Jay Koh:
Just one point of confirmation. It is fair to say that we've had a series of unqualified audits at the agency for I think immemorial. I don't think we can remember a time we actually had any management notes there that were material and just to confirm that the way that we're doing this self risk assessment and the process by which we're doing that will include consultation with our advisors and auditors about best practices to make sure we remain current with that approach.

Pam Poisson:
Yes, yes. And they've been engaged in multiple capacities related and we'll continue

Jay Koh:
Any further questions on this?

Richard Kauffman:
Well, yeah, I do have one because it goes back to this question about the handbook and processes and whether we are creating such structures that are, while they may be helping us from a control standpoint, are creating rigidity that makes an extra bureaucracy that makes it difficult to do the work.

Pam Poisson:
So a couple of thoughts I would share in response to that, and that's a great question. I was talking about overweighted versus underweighted risks. We obviously want to calibrate the controls that are in place to where we see the greatest risks. And you might recall the last time we went through this risk and control self-assessment we actually included as part of that process, identification of process, streamlining changes, a number of those have already been undertaken and instituted. We have, it just is one instance, several steps were streamlined in our contracting process that actually still keeps appropriate controls in place but makes things a bit more expedited along the way. Two other areas that we will be focusing on in the year ahead will be how we leverage some planned work on the technology front to actually update our overall financial systems and structures inclusive of contracting software.

And that's referenced more in the manual and we see that as a tremendous opportunity to actually leverage more current state systems so that we can have the systems do more of the work, obviously stay the human at the end of the chain. So I think that offers tremendous potential. I don't think we're exactly at the right balance. We definitely want to have more streamlining where we can, but I think the important focus that we've maintained over the years on controls is one that we see as not changing and that we need that level of importance given the role that we play. So in some respects we may be asking folks to err on the side of caution and that's by design.

Richard Kauffman:
Yeah, I mean, sorry, go ahead.

Shere Abbott:
No, I was going to just add on to that just on the AI question, which is I think we are focusing mostly on risk and to your expression not as much an unbe because we haven't solved that problem yet because moving the technology is moving so rapidly the opportunities could easily pass us by if we focus too much on the this is the way we do

Pam Poisson:
And I think perhaps not for today getting the time limitations, but we'd be happy to do a follow-up briefing as appropriate perhaps at the next coming meeting to share more information approaching AI.

Richard Kauffman:
So I mean you're going to do the engagement employee, annual employee engagement survey, which seems to relate specifically to the work scope, but I think that if we're going to be engaging with employees, I think we want to have a broader aperture so that we can pick up how our controls relate to the handbook and whether there are things that people are doing with respect to ai. It could be valuable going to be that innovation is going to be happening throughout the organization and we'd like to know what people are doing that would be positive with respect to ai. Okay.

Jay Koh:
Any other questions? Thank you, Pam. Next on the agenda is a report on the recent activities of the Internal Audit from its Acting Director Dorraine Teitsch-Gilligan, which I hope I'm pronouncing correct.

Dorraine Teitsch-Gilligan:
Thanks, Jay. Good. Excuse me. Good morning everybody. So in accordance with the approved 24-25 Audit Plan, the IT equipment and policies scope included evaluating IT policies, procedures, and inventory controls for compliance and alignment with the New York State office of ITS. Additionally, we assessed NYSERDA IT equipment controls related to inventory management functions including physical inventory, purchasing, receiving deployment, physical security damages, obsolete and disposed IT equipment field work at this point has wrapped up, the work papers have been finalized. The draft report has also been shared with the auditee for their review and comment and I plan to, excuse me, I report those results at the April meeting.

Next, we've been working on our invoice review and approval for quarters two and three. These roll up into the annual internal control over the payment process certification due in April. The testing performed for this continuous monitoring activity helps to satisfy that certification in addition to assessing the internal controls over the payment process, this includes a review of internal controls on batch processing this year and the effectiveness over bulk load and voucher mass approval payment processes.

Quarter two testing was put on hold so the project could be transitioned to our new internal auditor quarter two and quarter three. Testing is currently underway. The project is helping to acclimate our new internal auditor to advise him on NYSERDA and its systems and teams and programs, large scale renewables. The project is a consulting activity with LSR to provide guidance and oversight with our assistance. NYSERDA was able to contract with an MWBE firm to assist the LSR team with performing a consulting engagement to examine the 2024 proposal evaluation and award process for compliance with established procedures and processes in the RFP. The contractor observed the TEP in early September. Since then, the evaluation of bid proposals submitted to NYSERDA 2024, tier one solicitation concluded in October. NYSERDA is going to publicly disclose those results for the res RFP 24 1 solicitation. Upon completion of contracting, NYSERDA continues to work with the firm to assess the bid evaluation process to ensure that all proponents of the solicitation as published and NYSERDA's procedures were properly adhered to identify improvements to the future bid proposal evaluation process.

Internal audit will continue to review any issues as they arise and provide guidance to the contractor and coordination with the LSR team. The audit of onboarding was delayed to allow significant process changes and planned improvements in the area. We plan initial scoping and background work and expect the formal audit will be underway actually between now and April Green Bank. We met with the Green Bank the week of 11/11 to review the audit recommendations from two prior audits. We did both compliance and anti-money laundering. All open recommendations for the compliance audit have been verified and closed. As for the AML audit, there are some recommendations that still remain open and they are slated for completion at the end of this month. As for the risk portfolio and rotational audit plan, historically the rotational audit plan has been revised in January and is structured to align with the functional units and primary business processes contained in the internal control manual.

This includes routine audits performed on a cyclical basis. This item does not require your approval. Professional standards require that I keep you apprised of any changes in the coming year. The risk and controls working group led by our Internal Control Officer Pam, will be updating the NYSERDA wide risk assessment last conducted in 2022. This is going to provide a robust inventory risks identified throughout the Authority. Upon completion of that, we will then update our internal audit risk assessment. This will then help guide our activities, which may require adjusting the rotational and annual audit plans. In the meantime, we'll be updating the existing rotational plan of which the audit plan is going to be derived from a formal audit plan will be submitted for presentation to you at the April meeting. And finally, we have some administrative items. The January meeting is also where we discuss our administrative items such as staff and resources.

Our charter policy procedures manual on January 9th, 2025, the new global audit standards became effective for internal audit from the Institute of Internal Auditors. One of the things added to these new standards happened to be topical requirements, which provides structure for frequently audited global topics that are higher risk and pervasive in nature. While the standards apply to all internal audit services performed by internal auditors, the topical requirements are going to be considered additional mandatory requirements that must be followed when they are the subject of focus for an internal audit engagement. I a recently came out with its first topical requirement in cybersecurity, of which the final version will be released in quarter one. It's slated for February 8th.

The draft was made available for public comment and is currently being reviewed and updated. I shared the draft with the CFO and ISO. The ISO compared the topical requirements to the existing New York State requirements to identify necessary changes, which he could speak to in more detail. I also want to note that the IIA is coming out with three additional topical requirements this year. One is going to be in third party culture and the last is business resiliency. Our compliance with the new global standards, all of our internal audit policies and procedures need to be reviewed and updated. Our audit order was already updated and aligned with the new requirements, which was approved, excuse me, at the October Board meeting regarding staffing, we recently added a new internal auditor, but the Authority is currently canvasing for a new director of internal audit. That concludes my report. If anyone has any questions, I'd be happy to answer.

Jay Koh:
Thank you. Just to be clear, the new Global Internal Audit approaches basically are subject matter specific. So in the event of the internal audit process that we have in rotation, coming to one of those topics, there's supplemental, potentially supplemental requirements that are correct that we will adopt in the context of that specific subject matter.

Dorraine Teitsch-Gilligan:
Yes, as long as it applies to a very specific engagement like cybersecurity. If we look at third party vendors, resiliency, those kinds things. Yes.

Jay Koh:
Got it. Okay. And then I would probably direct the same question that I think Richard asked with regard to our risk assessment, which is we want to make sure that as we look at adopting new requirements, that they serve the mission of the agency in a way that enables us to absolutely manage the risk that we have from internal controls perspective, but also balance appropriately our ability to the effect that we carry out the mission of the agency. Any other questions on terms?

Richard Kauffman:
Yeah, I had a question mean in terms of the really goes to the point about inventory. We don't have very much inventory. How did this part of the why was this particular topic covered?

Dorraine Teitsch-Gilligan:
Because quite honestly, laptops have a tendency to walk and they carry a lot of secure information. That's PPSI. So with that said, we've been hiring a lot of individuals and there's been a lot of movement of our assets to get things from the basement and order and things like that. So we wanted to make sure that we have the ability to track those to make sure that where they are, making sure that our information is certainly tracked so that we can be aware of our assets to make sure that if anything gets leaked or anything if they're being wiped and those kinds of things.

Richard Kauffman:
Okay, that's excellent. Thank you.

Jay Koh:
Now are there any other questions for Dorraine? Thank you, Dorraine. This is informational only. As you're aware, as Dorraine already mentioned, former Internal Audit Director Mary Peck, has left NYSERDA at the end of 2024. The Authority is actively searching for a replacement and we expect to have a candidate for the Members to consider it the spring. The next item on the agenda concerns a resolution to convene an executive session pursuant to Section 105 A of the Public Officer's Law. To discuss the Authority's information technology and cybersecurity controls, I have a motion to convene an executive session to discuss the Authority's information technology and cybersecurity controls.

Sherburn Abbott:
Motion.

Jay Koh:
Second.

Lindsay Greene:
Second

Jay Koh:
In favor,

Members of the Committee:
Aye. Aye.

Jay Koh:
Resolution is approved. The Committee Members, the officers, the Committee secretary, the information security officer, and the acting director of internal audit will now enter into executive session. During that time, the wealth webcast will remain up. Upon our return, we will reach from being needed. So we'll now move into executive session.