

Combining Financial Statements  
Together with Report of Independent  
Certified Public Accountants

**New York City Water and Sewer System  
A Component Unit of the City of New York**

June 30, 2022 and 2021

## Contents

	Page
Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis (Unaudited)	4
Combining Financial Statements:	
Combining statements of net position (deficit)	16
Combining statements of revenues, expenses and changes in net position (deficit)	20
Combining statements of cash flows	22
Notes to combining financial statements	26
Required Supplementary Information (Unaudited):	
Schedule of changes for total OPEB plan liability and related ratios	65
Schedule of the Authority's proportionate share of the net pension liability	66
Schedule of the Authority's pension contributions	66

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**GRANT THORNTON LLP**

757 Third Avenue, 9<sup>th</sup> Floor  
New York, NY 10017

**D** +1 212 599 0100

**F** +1 212 370 4520

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Members of the Joint Audit Committee of the  
New York City Municipal Water Finance Authority and New York City Water Board

**Report on the financial statements****Opinion**

We have audited the accompanying combining financial statements of the New York City Municipal Water Finance Authority and the New York City Water Board, which collectively comprise the New York City Water and Sewer System (the “System”), a component unit of the City of New York, which collectively comprise the combining statements of net position (deficit), and the related combining statements of revenues, expenses, and changes in net position (deficit) and combining statements of cash flows as of and for the years ended June 30, 2022 and 2021, and the related notes to the combining financial statements.

In our opinion, the accompanying combining financial statements present fairly, in all material respects, the respective financial position of the New York City Municipal Water Finance Authority and the New York City Water Board as of June 30, 2022 and 2021, and the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audits of the combining financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combining financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date the combining financial statements are issued.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the combining financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combining financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combining financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combining financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combining financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required supplementary information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of changes for total OPEB plan liability and related ratios on page 65, the schedule of the Authority's proportionate share of the net pension liability on page 66, and the schedule of the Authority's pension contributions on page 66 be presented to supplement the basic combining financial statements. Such information is the responsibility of management and, although not a required part of the basic combining financial statements, is required by the Governmental Accounting Standards Board

who considers it to be an essential part of financial reporting for placing the basic combining financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with US GAAS. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combining financial statements, and other knowledge we obtained during our audit of the basic combining financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Grant Thornton LLP*

New York, New York  
October 13, 2022

**New York City Water and Sewer System**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**June 30, 2022 and 2021**

***Overview of the Combining Financial Statements***

The following is an overview of the financial activities of the New York City Water and Sewer System (the "System") as of and for the fiscal years ended June 30, 2022 and 2021. The System is a joint operation consisting of two legally separate and independent entities: the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"). The System is a component unit of The City of New York (the "City").

The combining financial statements consist of four parts: (1) management's discussion and analysis (this section), (2) the basic combining financial statements, (3) the notes to the combining financial statements and (4) required supplementary information.

The basic combining financial statements of the System, which include the combining statements of net position (deficit), the combining statements of revenues, expenses and changes in net position (deficit) and the combining statements of cash flows, are presented for the purposes of displaying entity-wide information in accordance with Governmental Accounting Standards Board ("GASB") requirements. These combining financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**New York City Water and Sewer System**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**June 30, 2022 and 2021**

**Financial Analysis and Results of Operations**

The following summarizes the activities of the System for the fiscal years 2022, 2021, and 2020, respectively (in thousands):

	2022	2021	2020	Variance	
				2022 vs 2021	2021 vs 2020
<b>REVENUES:</b>					
Operating revenues:					
Water supply and distribution	\$ 1,441,310	\$ 1,375,769	\$ 1,421,636	\$ 65,541	\$ (45,867)
Sewer collection and treatment	2,291,683	2,187,473	2,260,401	104,210	(72,928)
Bad debt expense	(10,013)	(81,390)	(31,481)	71,377	(49,909)
Other operating revenues	156,062	174,139	180,336	(18,077)	(6,197)
Total operating revenues	<u>3,879,042</u>	<u>3,655,991</u>	<u>3,830,892</u>	<u>223,051</u>	<u>(174,901)</u>
Non-operating revenues:					
Subsidies/grants	156,389	154,105	165,570	2,284	(11,465)
Investment income (loss)	(5,985)	1,949	79,993	(7,934)	(78,044)
Total non-operating revenues	<u>150,404</u>	<u>156,054</u>	<u>245,563</u>	<u>(5,650)</u>	<u>(89,509)</u>
Total revenues	<u>4,029,446</u>	<u>3,812,045</u>	<u>4,076,455</u>	<u>217,403</u>	<u>(264,410)</u>
<b>EXPENSES:</b>					
Other operating expenses	89,395	128,064	70,994	(38,669)	57,070
Operations and maintenance	1,574,864	1,687,273	1,614,828	(112,409)	72,445
General and administrative	46,450	46,600	48,550	(150)	(1,950)
Depreciation and amortization	1,037,925	973,433	1,023,186	64,492	(49,753)
Capital distributions	37,967	23,090	26,566	14,877	(3,476)
Net loss on retirement and impairment of capital assets	3,080	3,540	3,676	(460)	(136)
Gain on defeasance	(9,244)	(11,568)	(10,107)	2,324	(1,461)
Interest expense and cost of issuance	1,049,642	1,075,697	1,154,105	(26,055)	(78,408)
Total expenses	<u>3,830,079</u>	<u>3,926,129</u>	<u>3,931,798</u>	<u>(96,050)</u>	<u>(5,669)</u>
Net income (loss) before capital contributions	199,367	(114,084)	144,657	313,451	(258,741)
CAPITAL CONTRIBUTIONS	18,544	24,463	48,062	(5,919)	(23,599)
CHANGE IN NET POSITION (DEFICIT)	217,911	(89,621)	192,719	307,532	(282,340)
NET POSITION (DEFICIT) - Beginning	1,442,555	1,532,176	1,339,457	(89,621)	192,719
NET POSITION (DEFICIT) - Ending	<u>\$ 1,660,466</u>	<u>\$ 1,442,555</u>	<u>\$ 1,532,176</u>	<u>\$ 217,911</u>	<u>\$ (89,621)</u>

**New York City Water and Sewer System**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**June 30, 2022 and 2021**

**Operating Revenues**

Operating revenues are comprised of water supply and distribution, sewer collection and treatment, bad debt expense, and other operating revenues.

**2022-2021**

Operating revenues increased by \$223 million, or 6.1% compared to fiscal year 2021. The increase in revenues reflects a combination of (a) 2.76% rate increase for fiscal year 2022, (b) an overall increase in water consumption by customers.

**2021-2020**

Operating revenues decreased by \$175 million, or 4.6% compared to fiscal year 2020. The decrease in revenues reflects a combination of (a) no rate increase for fiscal year 2021, (b) a 3.8% year over year decline in water consumption by customers billed at metered rates and (c) an increase in customer delinquencies.

**Other Operating Revenues**

The following further details other operating revenues for fiscal years 2022, 2021, and 2020, respectively (in thousands):

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Variance</u>	
				<u>2022 vs 2021</u>	<u>2021 vs 2020</u>
Upstate water fees	\$ 76,071	\$ 89,016	\$ 85,114	\$ (12,945)	\$ 3,903
Late payment fees	29,864	31,854	39,211	(1,990)	(7,357)
Change in residual interest in sold liens	-	(4,653)	2,662	4,653	(7,315)
Connection fees and permits	9,793	13,569	11,809	(3,776)	1,760
Service line protection program	40,334	44,353	41,540	(4,019)	2,813
<b>Total other operating revenues</b>	<u>\$ 156,062</u>	<u>\$ 174,139</u>	<u>\$ 180,336</u>	<u>\$ (18,077)</u>	<u>\$ (6,196)</u>

**2022-2021**

Upstate water fees decreased by \$12.9 million. This was due primarily to a decrease in the volume of water supplied to these customers, including decreases to the volume of water sold at both the entitlement and excess rates.

Late payment fees decreased by \$2.0 million compared to fiscal year 2021 due to fewer payments made for delinquent accounts. This amount fluctuates depending on the timeliness of customer payment.

The amounts received for the service line protection program decreased by \$4.0 million. The number of effective policies decreased from approximately 272 thousand on June 30, 2021, to approximately 236 thousand by the end of fiscal year 2022.

**2021-2020**

Upstate water fees increased by \$3.9 million. This was due primarily to a 1.6% increase in the volume of water supplied to these customers, including increases to the volume of water sold at both the entitlement and excess rates.



## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2022 and 2021

Late payment fees decreased by \$7.4 million compared to fiscal year 2020 due to fewer payments made for delinquent accounts. This amount fluctuates depending on the timeliness of customer payment.

The change in residual interest in sold liens decreased by \$7.3 million compared to fiscal year 2020. Due to the coronavirus pandemic (COVID-19), referred to herein as "COVID-19", the City did not complete lien sales during fiscal years 2020 and 2021.

The amounts received for the service line protection program increased by \$2.8 million. The number of effective policies decreased from approximately 278,000 on June 30, 2020 to approximately 272,500 by the end of fiscal year 2021, offset by a price increase for water and sewer warranties of 16.7% that went into effect on January 6, 2020.

#### ***Non-Operating Revenues***

Non-operating revenues are comprised of subsidies, grants and investment income.

##### ***2022-2021***

Investment income decreased by \$7.9 million compared to fiscal year 2021. The decline was mainly due to unrealized losses on fixed income investments because of a decline in value of fixed income investments as a result of higher forward interest rates.

##### ***2021-2020***

Investment income decreased by \$78.0 million compared to fiscal year 2020. The decline was due to lower interest rates on invested assets, and a higher interest rate forward curve than a year ago, which resulted in unrealized losses on certain investment contracts. In addition, investment income in fiscal year 2020 included a one-time payment of \$7.5 million due to an early termination of an investment agreement.

#### ***Operating Expenses***

Operating expenses are comprised of operations and maintenance, general and administrative, depreciation and amortization, and other operating expenses.

##### ***2022-2021***

Total operations and maintenance expense decreased by \$112.4 million or 6.7% compared to fiscal year 2021. This is due primarily to the City not requesting a rental payment in fiscal year 2022 offset by an increase in the wastewater operating cost.

Depreciation and amortization increased by \$64.5 million compared to fiscal year 2021.

##### ***2021-2020***

Total operations and maintenance expense increased by \$72.4 million or 4.5% compared to fiscal year 2020. This is due primarily to an increase in the wastewater operating cost.

Depreciation and amortization decreased by \$49.8 million compared to fiscal year 2020.

#### ***Non-Operating Expenses***

Non-operating expenses are comprised of interest expense, gain on defeasance, cost of issuance, net loss on retirement of capital assets, and capital distribution.

## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2022 and 2021

#### **2022-2021**

Capital distribution increased by \$14.9 million in fiscal year 2022 compared to fiscal year 2021. This amount varies each year based on the land acquired and then granted to the City.

Interest expense and cost of issuance decreased by \$26.1 million. This decrease was primarily due to the amortization of bond premium and deferred refunding cost which are offsets to interest expense. Prior to such offsets the amount of interest expense was comparable to interest expense in fiscal year 2021.

Fiscal year 2022 cash defeasance resulted in an accounting gain of \$9.2 million. This represents the difference between the carrying value of the defeased bonds and the amount transferred to fund the escrow account (using current resources) to defease the bonds. This gain was reported in the System's combining statement of revenues, expenses and changes in net position (deficit).

#### **2021-2020**

Capital distribution decreased by \$3.5 million in fiscal year 2021 compared to fiscal year 2020. This amount varies each year based on the land acquired and then granted to the City.

Interest expense and cost of issuance decreased by \$78.4 million. This decrease was primarily due to the amortization of bond premium, and lower interest rate on variable rate bonds compared to fiscal year 2020.

Fiscal year 2021 cash defeasance resulted in an accounting gain of \$11.6 million. This represents the difference between the carrying value of the defeased bonds and the amount transferred to fund the escrow account (using current resources) to defease the bonds. This gain was reported in the System's combining statement of revenues, expenses and changes in net position (deficit).

#### **Capital Contributions**

Capital Contributions are comprised of federal, state and other contributions to the System's capital projects.

#### **2022-2021**

Capital contributions decreased by \$5.9 million in fiscal year 2022.

#### **2021-2020**

Capital contributions decreased by \$23.6 million in fiscal year 2021. Fiscal year 2020 was notably high due to a \$30 million note, the repayment of which was forgiven by the Environmental Facilities Corporation ("EFC") in accordance with the terms of the note.

#### **Change in Net Position (Deficit)**

#### **2022-2021**

The change in net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) increased by \$308 million in fiscal year 2022 compared to fiscal year 2021. As explained in more detail above, such increase was due to the combined effect of a \$217 million increase in total revenue and a \$96.0 million reduction in total expenses offset by a decrease in capital contribution of \$5.9 million.

## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2022 and 2021

#### **2021-2020**

The change in net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) decreased by \$282 million in fiscal year 2021 compared to fiscal year 2020. As explained in more detail above, in fiscal year 2021 total revenues decreased by \$264 million, partially offset by a \$5.7 million reduction in total expenses. In addition, capital contributions decreased by \$23.6 million.

#### ***Ending Net Position (Deficit)***

#### **2022-2021**

The ending net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$218 million or 15.1% compared to fiscal year 2021.

#### **2021-2020**

The ending net position (deficit) represents the net total of operating revenues and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) decreased by \$89.6 million or 5.8% compared to fiscal year 2021.

## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

**June 30, 2022 and 2021**

The following is a summary of the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position (deficit) as of June 30 (in thousands):

	2022	2021	2020	Variance	
				2022 vs 2021	2021 vs 2020
<b>Assets:</b>					
Current assets	\$ 3,670,122	\$ 3,264,799	\$ 3,591,107	\$ 405,323	\$ (326,308)
Residual interest in sold liens	63,391	59,831	64,484	3,560	(4,653)
Capital assets	33,058,749	32,525,985	31,759,472	532,764	766,513
Total assets	<u>36,792,262</u>	<u>35,850,615</u>	<u>35,415,063</u>	<u>941,647</u>	<u>435,552</u>
<b>Deferred outflows of resources:</b>					
Accumulated decrease in fair value of hedging derivative	60,991	120,682	154,950	(59,691)	(34,268)
Deferred changes in net pension liability	707	514	(263)	193	777
Unamortized asset retirement obligation	10,158	11,135	12,452	(977)	(1,317)
Deferred changes in OPEB liability	632	414	489	218	(75)
Total deferred outflows of resources	<u>72,488</u>	<u>132,745</u>	<u>167,628</u>	<u>(60,257)</u>	<u>(34,883)</u>
Total assets and deferred outflows of resources	<u>\$ 36,864,750</u>	<u>\$ 35,983,360</u>	<u>\$ 35,582,691</u>	<u>\$ 881,390</u>	<u>\$ 400,669</u>
<b>Liabilities:</b>					
Current liabilities	\$ 1,127,273	\$ 1,006,584	\$ 929,099	\$ 120,689	\$ 77,485
Long-term liabilities	33,957,896	33,490,664	33,082,440	467,232	408,224
Total liabilities	<u>35,085,169</u>	<u>34,497,248</u>	<u>34,011,539</u>	<u>587,921</u>	<u>485,709</u>
<b>Deferred inflows of resources:</b>					
Deferred changes in net pension liability	125	662	8	(537)	654
Deferred changes in OPEB liability	1,032	590	549	442	41
Unamortized deferred bond refunding costs	117,958	42,305	38,419	75,653	3,886
Total deferred inflows of resources	<u>119,115</u>	<u>43,557</u>	<u>38,976</u>	<u>75,558</u>	<u>4,581</u>
<b>Net position (deficit):</b>					
Net investment in capital assets	685,990	598,975	481,129	87,015	117,846
Restricted for debt service	1,573,633	1,533,139	1,638,121	40,494	(104,982)
Restricted for operations and maintenance	285,656	278,207	264,178	7,449	14,029
Unrestricted (deficit)	(884,813)	(967,766)	(851,252)	82,953	(116,514)
Total net position (deficit)	<u>1,660,466</u>	<u>1,442,555</u>	<u>1,532,176</u>	<u>217,911</u>	<u>(89,621)</u>
Total liabilities, deferred inflows of resources, and net position (deficit)	<u>\$ 36,864,750</u>	<u>\$ 35,983,360</u>	<u>\$ 35,582,691</u>	<u>\$ 881,390</u>	<u>\$ 400,669</u>

## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2022 and 2021

#### **Current Assets**

Current assets are comprised of restricted cash and cash equivalents, restricted investments, accrued interest and subsidy receivable, receivable from the City, and accounts receivable.

#### **2022-2021**

Current assets increased by \$405 million or 12.4%. Restricted investments, including restricted cash and cash equivalents, increased by \$244 million primarily in the revenue fund and construction fund. Construction fund balances fluctuate due to the timing of bonds issuances and payments to the City for capital costs. Restricted assets held in the Authority's escrow accounts and in the debt service reserve fund declined by \$118 million and \$80.0 million, respectively. Assets held in the escrow accounts decline when funds are applied to repayment of debt. The decline in the debt service reserve fund is largely due to a \$55.0 million free up of funds held in the reserve as a result of a reduction in the reserve requirement. Accounts receivable net of allowance for uncollectable increased by \$102 million and receivable from the City increased by \$59.3 million.

#### **2021-2020**

Current assets decreased by \$326 million or 9.1%. Restricted investments, including restricted cash and cash equivalents, decreased by \$320 million primarily in the construction fund and escrow accounts. Construction fund balances fluctuate due to the timing of bonds issuances and payments to the City for capital costs. Net receivable increased by \$78.2 million and receivable from the City decreased by \$54.8 million.

#### **Current Liabilities**

Current liabilities are comprised of accounts payable, interest payable, revenue received in advance, current portion of bonds and notes payable, payable to the City, and service credits on customer accounts.

#### **2022-2021**

Current liabilities increased by \$121 million, or 12%, compared to fiscal year 2021. This was primarily due to an increase in the current portion of bonds and notes payable.

#### **2021-2020**

Current liabilities increased by \$77.5 million, or 8.3%, compared to fiscal year 2020. This was primarily due to an increase in the current portion of bonds and notes payable.

#### **Long-Term Liabilities**

Long-term liabilities are comprised of bonds and notes payable, pollution remediation obligation, interest rate swap agreements net of revenue requirements payable to the Authority, net pension liability, net OPEB liability, and other long-term liabilities.

#### **2022-2021**

Long-term liabilities increased by \$467 million, or 1.4%, primarily due to the issuance of new debt to fund capital projects.

**New York City Water and Sewer System**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**June 30, 2022 and 2021**

**2021-2020**

Long-term liabilities increased by \$408 million, or 1.2%, primarily due to the issuance of new debt to fund capital projects.

**Capital Assets**

The System's capital assets include buildings, machinery and equipment, vehicles, water supply and wastewater treatment systems, and water distribution and sewage collection systems, as well as utility construction.

The Authority issues debt to pay for the capital improvements to the System and related costs. Costs related to the System's filtration avoidance determination, including land acquisition in the upstate watershed area and certain costs associated with pollution remediation, are financed with debt but are not recorded as the System's assets on the combining statements of net position (deficit). The cumulative amount of expenses not capitalized as assets as of June 30, 2022, was \$1.78 billion. These costs or distributions are expensed in the System's combining statements of revenues, expenses, and changes in net position (deficit) in the years incurred. The land purchased is granted to the City and becomes the City's capital asset because it is not subject to the method of capitalization under which the System reports its capital assets.

Capital assets as of June 30 are detailed as follows (in thousands):

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Variance</u>	
				<u>2022 vs 2021</u>	<u>2021 vs 2020</u>
<b>NONDEPRECIABLE ASSETS:</b>					
Utility construction in progress	\$ 6,271,077	\$ 5,769,893	\$ 5,242,563	\$ 501,184	\$ 527,330
<b>DEPRECIABLE ASSETS:</b>					
Utility plant in service:					
Buildings	35,821	35,821	35,821	-	-
Machinery and equipment	5,549,134	5,338,988	5,216,995	210,146	121,993
Vehicles	287,885	277,890	274,757	9,995	3,133
Water supply and distribution and wastewater treatment and sewage collection systems	39,595,255	38,752,739	37,674,403	842,516	1,078,337
Total utility plant in service	<u>45,468,095</u>	<u>44,405,438</u>	<u>43,201,976</u>	<u>1,062,657</u>	<u>1,203,463</u>
Less accumulated depreciation for:					
Buildings	30,900	30,618	30,335	282	283
Machinery and equipment	3,156,160	2,890,886	2,636,524	265,274	254,362
Vehicles	146,485	135,200	124,056	11,285	11,144
Water supply and distribution and wastewater treatment and sewage collection systems	15,346,878	14,592,642	13,894,152	754,236	698,490
Total accumulated depreciation	<u>18,680,423</u>	<u>17,649,346</u>	<u>16,685,067</u>	<u>1,031,077</u>	<u>964,279</u>
Total utility plant in service - net	<u>26,787,672</u>	<u>26,756,092</u>	<u>26,516,909</u>	<u>31,580</u>	<u>239,183</u>
Total capital assets - net	<u>\$ 33,058,749</u>	<u>\$ 32,525,985</u>	<u>\$ 31,759,472</u>	<u>\$ 532,764</u>	<u>\$ 766,513</u>

**2022-2021**

Total gross additions to non-depreciable assets utility construction in progress were \$1.57 billion and a total of \$1.07 billion of completed projects were moved from utility construction in progress into depreciable assets utility plant in service. This resulted in a \$501 million increase in utility construction in progress,

## **New York City Water and Sewer System**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**June 30, 2022 and 2021**

representing an 8.7% net increase compared to fiscal year 2021. The system completed the construction of a new flow division structure and primary settling tank and other improvements at 26th Ward Waste Water Treatment Plant of \$172 million, installed a high level sewer separation system including more than two miles of high-level storm sewers, 16 miles of sanitary sewers and 2 miles of combined sewers in Canarsie and East New York for \$59.0 million, and over 700 bioswales around Newtown Creek area in the borough of Brooklyn for \$41.0 million. The system also completed the implementation of a new \$27.0 million billing system during the fiscal year. Total capital assets, net of depreciation, increased by \$533 million, a 1.6% increase from fiscal year 2021 (see Note 3).

#### **2021-2020**

Total gross additions to non-depreciable assets utility construction in progress were \$1.74 billion and a total of \$1.21 billion of completed projects were moved from utility construction in progress into depreciable assets utility plant in service. This resulted in a \$527 million increase in utility construction in progress, representing a 10% net increase compared to fiscal year 2020. The System completed installation of four shafts for the Third Water Tunnel of \$125 million, upgrade and improvement of sewer pumps and infrastructure at various plants and pumping stations of \$114 million, a combined sewer installation in the South Bronx of \$81.0 million, and facility reconstruction of \$19.0 million. Total capital assets, net of depreciation, increased by \$767 million, a 2.4% increase from fiscal year 2020 (see Note 3).

#### **Deferred Outflows of Resources**

Deferred outflows of resources are comprised of accumulated decrease in fair value of hedging derivative, deferred changes in net pension liability, unamortized asset retirement obligation, and deferred changes in OPEB liability.

#### **2022-2021**

Deferred outflows from hedging decreased by \$59.7 million, or 49.5%, compared to fiscal year 2021 due to an increase in the fair value of the hedging derivative instruments.

#### **2021-2020**

Deferred outflows from hedging decreased by \$34.3 million, or 22.1%, compared to fiscal year 2020 due to an increase in the fair value of the hedging derivative instrument.

#### **Debt Administration**

The debt program of the Authority includes commercial paper notes and long-term debt issued to the public, as well as bond anticipation notes ("BANs") and interest-subsidized bonds issued to the New York State EFC. Commercial paper notes and BANs are interim financing instruments. In fiscal years 2022 and 2021, the Authority did not issue any commercial paper notes, relying instead on bond and BANs proceeds to reimburse the City for payments made for water and sewer capital projects. The Authority periodically issues long-term debt to retire outstanding BANs and commercial paper notes. The Authority also issues refunding bonds to refinance higher coupon debt and uses current revenues to defease debt.

**New York City Water and Sewer System**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**June 30, 2022 and 2021**

As of June 30, 2022, the total outstanding debt of the System was \$31.5 billion, which was comprised of adjustable-rate bonds, fixed-rate bonds and BANs. The following table summarizes debt program activities for the fiscal year ended June 30, 2022 (in thousands) (see Note 9):

	<b>Outstanding Principal Balance at June 30, 2021</b>	<b>Issued</b>	<b>Principal Retired</b>	<b>Principal Defeased</b>	<b>Outstanding Principal Balance at June 30, 2022</b>
First Resolution Bonds	\$ 889,871	\$ -	\$ -	\$ (100,000)	\$ 789,871
Second Resolution Bonds	30,001,898	3,203,869	(297,665)	(2,256,940)	30,651,162
Second Resolution BANs	155,029	375,835	-	(429,738)	101,126
Total Bonds Payable	<u>\$ 31,046,798</u>	<u>\$ 3,579,704</u>	<u>\$ (297,665)</u>	<u>\$ (2,786,678)</u>	<u>\$ 31,542,159</u>

In fiscal year 2022, the Authority issued \$2.5 billion of water and sewer system revenue bonds to the public, including \$1.5 billion of refunding bonds and \$1 billion of new money bonds. Additionally, the Authority issued \$341 million of refunding water and sewer system revenue bonds and \$404 million of new money bonds to EFC. The Authority also drew down \$376 million of proceeds from BANs issued to EFC. The Authority used new money bond proceeds to finance capital improvements to the System and to pay for bond issuance costs.

During fiscal year 2022, the Authority issued \$1.9 billion of bonds to refund \$2.1 billion of outstanding bonds. These refundings resulted in an accounting gain of \$92.6 million. This amount is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The Authority reduced its aggregate debt service for principal and interest by \$585 million and obtained an economic benefit (present value savings) of \$447 million.

During fiscal year 2022, the Authority legally defeased \$243 million of outstanding bonds using current resources. This resulted in an accounting gain of \$9.2 million and a debt service reduction of \$295 million.

As of June 30, 2021, the total outstanding debt of the System was \$31.0 billion, which was comprised of adjustable rate and fixed-rate long-term bonds and BANs. The following table summarizes debt program activities for the fiscal year ended June 30, 2021 (in thousands) (see Note 9):

	<b>Outstanding Principal Balance at June 30, 2020</b>	<b>Issued</b>	<b>Principal Retired</b>	<b>Principal Defeased</b>	<b>Outstanding Principal Balance at June 30, 2021</b>
First Resolution Bonds	\$ 1,314,871	\$ -	\$ -	\$ (425,000)	\$ 889,871
Second Resolution Bonds	29,574,002	2,974,540	(214,664)	(2,331,980)	30,001,898
Second Resolution BANs	-	155,029	-	-	155,029
Total Bonds Payable	<u>\$ 30,888,873</u>	<u>\$ 3,129,569</u>	<u>\$ (214,664)</u>	<u>\$ (2,756,980)</u>	<u>\$ 31,046,798</u>



## New York City Water and Sewer System

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2022 and 2021

In fiscal year 2021, the Authority issued \$2.64 billion of water and sewer system revenue bonds to the public, including \$1.66 billion of refunding bonds and \$981.0 million of new money bonds. Additionally, the Authority issued \$337 million of refunding water and sewer system revenue bonds to EFC. The Authority also drew down \$155 million of proceeds from BANs issued to EFC. The Authority used new money bond proceeds to finance capital improvements to the System and to pay for bond issuance costs.

During fiscal year 2021, the Authority issued \$1.99 billion of bonds to refund \$2.38 billion of outstanding bonds. These refundings resulted in an accounting gain of \$11.3 million. This amount is deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. The Authority reduced its aggregate debt service for principal and interest by \$642 million and obtained an economic benefit (present value savings) of \$554 million.

During fiscal year 2021, the Authority legally defeased \$381 million of outstanding bonds using current resources. This resulted in an accounting gain of \$11.6 million and a gross debt service savings of \$409 million.

#### ***Economic Outlook***

In March 2020, the outbreak of COVID-19 was declared a pandemic by the World Health Organization. The Governor of the State of New York declared a state of emergency in the state on March 7, 2020. Such declaration was subsequently renewed numerous times, but was allowed to expire without renewal on September 13, 2022. The Mayor of the City of New York declared a state of emergency in the City on March 12, 2020. Such declaration has subsequently been renewed numerous times. Unless renewed again, it will expire on October 22, 2022. The City was an epicenter of the outbreak at its onset. The outbreak of COVID-19 has altered the behavior of businesses and people in a manner that has had, and is expected to continue to have, negative effects on the City and its economy. Drinking water quality, water supply and wastewater treatment have not been affected by the outbreak of the virus; however, the System is working on addressing a number of ongoing effects of the pandemic and economic headwinds including reduced headcount, increased payment delinquencies, elevated inflation and increased interest rates.

#### ***Request for Information***

This financial report is provided as an overview of the System's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Investor Relations, New York City Municipal Water Finance Authority, 255 Greenwich Street, New York, New York 10007 or to NYWInvestors@omb.nyc.gov.

\* \* \* \* \*

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF NET POSITION (DEFICIT)**

**June 30, 2022**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
<b>ASSETS:</b>				
<b>CURRENT ASSETS:</b>				
Restricted cash and cash equivalents	\$ 161,004	\$ 2,033,116	\$ -	\$ 2,194,120
Restricted investments	136,920	288,790	-	425,710
Accrued interest and federal subsidy receivable	160	5,972	-	6,132
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$525,680	618,947	-	-	618,947
Unbilled - less allowance for uncollectable water and sewer receivables of \$28,277	326,986	-	-	326,986
Receivable from The City of New York	98,227	-	-	98,227
<b>Total current assets</b>	<b>1,342,244</b>	<b>2,327,878</b>	<b>-</b>	<b>3,670,122</b>
<b>NON-CURRENT ASSETS:</b>				
Utility plant in service - less accumulated depreciation of \$18,680,423	26,787,672	-	-	26,787,672
Utility plant construction	6,271,077	-	-	6,271,077
<b>Total capital assets</b>	<b>33,058,749</b>	<b>-</b>	<b>-</b>	<b>33,058,749</b>
Residual interest in sold liens	63,391	-	-	63,391
Revenue required to be billed by and received from the Water Board	-	10,437,153	(10,437,153)	-
<b>Total non-current assets</b>	<b>33,122,140</b>	<b>10,437,153</b>	<b>(10,437,153)</b>	<b>33,122,140</b>
<b>Total assets</b>	<b>34,464,384</b>	<b>12,765,031</b>	<b>(10,437,153)</b>	<b>36,792,262</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Accumulated decrease in fair value of hedging derivative	-	60,991	-	60,991
Deferred changes in net pension liability	-	707	-	707
Unamortized asset retirement obligations	10,158	-	-	10,158
Deferred changes in OPEB liability	-	632	-	632
<b>Total deferred outflows of resources</b>	<b>10,158</b>	<b>62,330</b>	<b>-</b>	<b>72,488</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 34,474,542</b>	<b>\$ 12,827,361</b>	<b>\$ (10,437,153)</b>	<b>\$ 36,864,750</b>

See notes to combining financial statements.

(Continued)

**New York City Water and Sewer System**

**COMBINING STATEMENT OF NET POSITION (DEFICIT) - CONTINUED**

**June 30, 2022**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City Municipal Water Finance			Total
	Water Board	Authority	Eliminations	
	(in thousands)			
<b>LIABILITIES:</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 13,565	\$ 5,420	\$ -	\$ 18,985
Interest payable	-	53,531	-	53,531
Current portion of bonds and notes payable	-	435,969	-	435,969
Payable to the City of New York	-	523,152	-	523,152
Service credits on customer accounts	95,636	-	-	95,636
<b>Total current liabilities</b>	<b>109,201</b>	<b>1,018,072</b>	<b>-</b>	<b>1,127,273</b>
<b>LONG-TERM LIABILITIES:</b>				
Bonds and notes payable	-	33,822,909	-	33,822,909
Pollution remediation obligation	51,678	-	-	51,678
Interest rate swap agreement - net	-	60,991	-	60,991
Revenue requirements payable to the Authority	10,437,153	-	(10,437,153)	-
Net pension liability	-	1,014	-	1,014
Net OPEB liability	-	1,771	-	1,771
Other long-term liability	17,726	1,807	-	19,533
<b>Total long-term liabilities</b>	<b>10,506,557</b>	<b>33,888,492</b>	<b>(10,437,153)</b>	<b>33,957,896</b>
<b>Total liabilities</b>	<b>10,615,758</b>	<b>34,906,564</b>	<b>(10,437,153)</b>	<b>35,085,169</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unamortized deferred bond refunding costs	-	117,958	-	117,958
Deferred changes in net pension liability	-	125	-	125
Deferred changes in OPEB liability	-	1,032	-	1,032
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>119,115</b>	<b>-</b>	<b>119,115</b>
<b>NET POSITION (DEFICIT):</b>				
Net investment in capital assets	33,058,749	(32,372,759)	-	685,990
Restricted for debt service	-	1,573,633	-	1,573,633
Restricted for operations and maintenance	285,656	-	-	285,656
Unrestricted (deficit)	(9,485,621)	8,600,808	-	(884,813)
<b>Total net position (deficit)</b>	<b>23,858,784</b>	<b>(22,198,318)</b>	<b>-</b>	<b>1,660,466</b>
<b>Total liabilities, deferred inflows of resources and net position (deficit)</b>	<b>\$ 34,474,542</b>	<b>\$ 12,827,361</b>	<b>\$ (10,437,153)</b>	<b>\$ 36,864,750</b>

See notes to combining financial statements.

(Concluded)

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF NET POSITION (DEFICIT)**

**June 30, 2021**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
<b>ASSETS:</b>				
<b>CURRENT ASSETS:</b>				
Restricted cash and cash equivalents	\$ 12,697	\$ 1,638,984	\$ -	\$ 1,651,681
Restricted investments	273,854	450,265	-	724,119
Accrued interest and federal subsidy receivable	-	6,180	-	6,180
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$516,709	526,612	-	-	526,612
Unbilled - less allowance for uncollectable water and sewer receivables of \$27,235	317,329	-	-	317,329
Receivable from The City of New York	38,878	-	-	38,878
<b>Total current assets</b>	<b>1,169,370</b>	<b>2,095,429</b>	<b>-</b>	<b>3,264,799</b>
<b>NON-CURRENT ASSETS:</b>				
Utility plant in service - less accumulated depreciation of \$17,649,346	26,756,092	-	-	26,756,092
Utility plant construction	5,769,893	-	-	5,769,893
<b>Total capital assets</b>	<b>32,525,985</b>	<b>-</b>	<b>-</b>	<b>32,525,985</b>
Residual interest in sold liens	59,831	-	-	59,831
Revenue required to be billed by and received from the Water Board	-	10,913,505	(10,913,505)	-
<b>Total non-current assets</b>	<b>32,585,816</b>	<b>10,913,505</b>	<b>(10,913,505)</b>	<b>32,585,816</b>
<b>Total assets</b>	<b>33,755,186</b>	<b>13,008,934</b>	<b>(10,913,505)</b>	<b>35,850,615</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Accumulated decrease in fair value of hedging derivative	-	120,682	-	120,682
Deferred changes in net pension liability	-	514	-	514
Unamortized asset retirement obligations	11,135	-	-	11,135
Deferred changes in OPEB liability	-	414	-	414
<b>Total deferred outflows of resources</b>	<b>11,135</b>	<b>121,610</b>	<b>-</b>	<b>132,745</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 33,766,321</b>	<b>\$ 13,130,544</b>	<b>\$ (10,913,505)</b>	<b>\$ 35,983,360</b>

See notes to combining financial statements.

(Continued)

**New York City Water and Sewer System**

**COMBINING STATEMENT OF NET POSITION (DEFICIT) - CONTINUED**

**June 30, 2021**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City Municipal Water Finance			Total
	Water Board	Authority	Eliminations	
	(in thousands)			
<b>LIABILITIES:</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 8,305	\$ 7,789	\$ -	\$ 16,094
Interest payable	-	51,079	-	51,079
Revenue received in advance	8,336	-	-	8,336
Current portion of bonds and notes payable	-	297,665	-	297,665
Payable to the City of New York	-	565,434	-	565,434
Service credits on customer accounts	67,976	-	-	67,976
<b>Total current liabilities</b>	<b>84,617</b>	<b>921,967</b>	<b>-</b>	<b>1,006,584</b>
<b>LONG-TERM LIABILITIES:</b>				
Bonds and notes payable	-	33,300,223	-	33,300,223
Pollution remediation obligation	45,432	-	-	45,432
Interest rate swap agreement - net	-	120,682	-	120,682
Revenue requirements payable to the Authority	10,913,505	-	(10,913,505)	-
Net pension liability	-	342	-	342
Net OPEB liability	-	1,928	-	1,928
Other long-term liability	17,751	4,306	-	22,057
<b>Total long-term liabilities</b>	<b>10,976,688</b>	<b>33,427,481</b>	<b>(10,913,505)</b>	<b>33,490,664</b>
<b>Total liabilities</b>	<b>11,061,305</b>	<b>34,349,448</b>	<b>(10,913,505)</b>	<b>34,497,248</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unamortized deferred bond refunding costs	-	42,305	-	42,305
Deferred changes in net pension liability	-	662	-	662
Deferred changes in OPEB liability	-	590	-	590
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>43,557</b>	<b>-</b>	<b>43,557</b>
<b>NET POSITION (DEFICIT):</b>				
Net investment in capital assets	32,525,985	(31,927,010)	-	598,975
Restricted for debt service	-	1,533,139	-	1,533,139
Restricted for operations and maintenance	278,207	-	-	278,207
Unrestricted (deficit)	(10,099,176)	9,131,410	-	(967,766)
<b>Total net position (deficit)</b>	<b>22,705,016</b>	<b>(21,262,461)</b>	<b>-</b>	<b>1,442,555</b>
<b>Total liabilities, deferred inflows of resources and net position (deficit)</b>	<b>\$ 33,766,321</b>	<b>\$ 13,130,544</b>	<b>\$ (10,913,505)</b>	<b>\$ 35,983,360</b>

See notes to combining financial statements.

(Concluded)

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION (DEFICIT)**

For the year ended June 30, 2022

	New York City		Total
	Water Board	Municipal Water Finance Authority	
		(in thousands)	
<b>OPERATING REVENUES:</b>			
Water supply and distribution	\$ 1,441,310	\$ -	\$ 1,441,310
Sewer collection and treatment	2,291,683	-	2,291,683
Bad debt expense	(10,013)	-	(10,013)
Other operating revenues	156,062	-	156,062
<b>Total operating revenues</b>	<b>3,879,042</b>	<b>-</b>	<b>3,879,042</b>
<b>OPERATING EXPENSES:</b>			
Operations and maintenance	1,574,864	-	1,574,864
General and administrative	1,497	44,953	46,450
Other operating expenses	89,395	-	89,395
Depreciation and amortization	1,037,925	-	1,037,925
<b>Total operating expenses</b>	<b>2,703,681</b>	<b>44,953</b>	<b>2,748,634</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,175,361</b>	<b>(44,953)</b>	<b>1,130,408</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest expense	-	(1,029,524)	(1,029,524)
Gain on defeasance	-	9,244	9,244
Cost of issuance	-	(20,118)	(20,118)
Net loss on retirement and impairment of capital assets	(3,080)	-	(3,080)
Subsidies/grants	-	156,389	156,389
Capital distributions	(37,967)	-	(37,967)
Investment income (loss)	910	(6,895)	(5,985)
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>1,135,224</b>	<b>(935,857)</b>	<b>199,367</b>
Capital contributions	18,544	-	18,544
<b>CHANGE IN NET POSITION (DEFICIT)</b>	<b>1,153,768</b>	<b>(935,857)</b>	<b>217,911</b>
<b>NET POSITION (DEFICIT) - Beginning of year</b>	<b>22,705,016</b>	<b>(21,262,461)</b>	<b>1,442,555</b>
<b>NET POSITION (DEFICIT) - End of year</b>	<b>\$ 23,858,784</b>	<b>\$ (22,198,318)</b>	<b>\$ 1,660,466</b>

See notes to combining financial statements.

**New York City Water and Sewer System**

**COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION (DEFICIT) - CONTINUED**

For the year ended June 30, 2021

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>OPERATING REVENUES:</b>			
Water supply and distribution	\$ 1,375,769	\$ -	\$ 1,375,769
Sewer collection and treatment	2,187,473	-	2,187,473
Bad debt expense	(81,390)	-	(81,390)
Other operating revenues	174,139	-	174,139
<b>Total operating revenues</b>	<b>3,655,991</b>	<b>-</b>	<b>3,655,991</b>
<b>OPERATING EXPENSES:</b>			
Operations and maintenance	1,687,273	-	1,687,273
General and administrative	1,272	45,328	46,600
Other operating expenses	128,064	-	128,064
Depreciation and amortization	973,433	-	973,433
<b>Total operating expenses</b>	<b>2,790,042</b>	<b>45,328</b>	<b>2,835,370</b>
<b>OPERATING INCOME (LOSS)</b>	<b>865,949</b>	<b>(45,328)</b>	<b>820,621</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest expense	-	(1,059,183)	(1,059,183)
Gain on defeasance	-	11,568	11,568
Cost of issuance	-	(16,514)	(16,514)
Net loss on retirement and impairment of capital assets	(3,540)	-	(3,540)
Subsidies/grants	-	154,105	154,105
Capital distributions	(23,090)	-	(23,090)
Investment income	376	1,573	1,949
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>839,695</b>	<b>(953,779)</b>	<b>(114,084)</b>
Capital contributions	24,463	-	24,463
<b>CHANGE IN NET POSITION (DEFICIT)</b>	<b>864,158</b>	<b>(953,779)</b>	<b>(89,621)</b>
<b>NET POSITION (DEFICIT) - Beginning of year</b>	<b>21,840,858</b>	<b>(20,308,682)</b>	<b>1,532,176</b>
<b>NET POSITION (DEFICIT) - End of year</b>	<b>\$ 22,705,016</b>	<b>\$ (21,262,461)</b>	<b>\$ 1,442,555</b>

See notes to combining financial statements.

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2022**

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 3,771,301	\$ -	\$ 3,771,301
Payments for operations and maintenance	(1,668,958)	-	(1,668,958)
Payments for administration	(1,503)	(44,805)	(46,308)
<b>Net cash provided by (used in) operating activities</b>	<b>2,100,840</b>	<b>(44,805)</b>	<b>2,056,035</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	4,058,457	4,058,457
Receipts from capital grants awarded to the governmental enterprise	-	8,660	8,660
Receipts from contribution made by other organization	292	-	292
Acquisition and construction of capital assets	-	(1,656,440)	(1,656,440)
Payments by the Water Board to the Authority	(2,090,510)	2,090,510	-
Repayments of bonds, notes and other borrowings	-	(3,116,592)	(3,116,592)
Interest paid on bonds, notes and other borrowings	-	(1,095,279)	(1,095,279)
<b>Net cash (used in) provided by capital and related financing activities</b>	<b>(2,090,218)</b>	<b>289,316</b>	<b>(1,800,902)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sales and maturities of investments	273,620	171,195	444,815
Purchases of investments	(137,383)	(36,919)	(174,302)
Interest on investments	1,448	15,345	16,793
<b>Net cash provided by investing activities</b>	<b>137,685</b>	<b>149,621</b>	<b>287,306</b>
<b>NET INCREASE IN RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>148,307</b>	<b>394,132</b>	<b>542,439</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>12,697</b>	<b>1,638,984</b>	<b>1,651,681</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 161,004</b>	<b>\$ 2,033,116</b>	<b>\$ 2,194,120</b>

See notes to combining financial statements.

(Continued)



**New York City Water and Sewer System**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**  
**For the year ended June 30, 2022**

	New York City		Total
	Water Board	Municipal Water Finance Authority	
		(in thousands)	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 1,175,361	\$ (44,953)	\$ 1,130,408
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	952	-	952
Depreciation	1,036,973	-	1,036,973
Other operating expenses			
paid for with bond proceeds	16,530	-	16,530
Pollution remediation expense	5,095	-	5,095
Changes in assets and liabilities:			
Pollution remediation liability	6,246	-	6,246
Receivables - net	(101,993)	-	(101,993)
Receivable from the City	(59,349)	-	(59,349)
Residual interest in sold liens	(3,560)	-	(3,560)
Accounts payable	5,260	148	5,408
Revenues received in advance	(8,336)	-	(8,336)
Refunds payable	27,661	-	27,661
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 2,100,840</b>	<b>\$ (44,805)</b>	<b>\$ 2,056,035</b>

The following are the noncash capital and related financing activities:

Interest expense includes the amortization of net (premium) and discount in the amount of \$199,403 at June 30, 2022.

Capital expenditures in the amount of \$523,152 had been incurred but not paid at June 30, 2022.

The Water Board received federal, state, and other capital contributions of \$18,544 in fiscal year 2022.

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**  
**For the year ended June 30, 2021**

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 3,575,152	\$ -	\$ 3,575,152
Payments for operations and maintenance	(1,674,516)	-	(1,674,516)
Payments for administration	(1,035)	(45,855)	(46,890)
<b>Net cash provided by (used in) operating activities</b>	<b>1,899,601</b>	<b>(45,855)</b>	<b>1,853,746</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	3,704,071	3,704,071
Receipts from contribution made by other organization	503	-	503
Acquisition and construction of capital assets	-	(1,809,168)	(1,809,168)
Payments by the Water Board to the Authority	(1,891,178)	1,891,178	-
Repayments of bonds, notes and other borrowings	-	(3,011,606)	(3,011,606)
Interest paid on bonds, notes and other borrowings	-	(1,062,136)	(1,062,136)
<b>Net cash used in capital and related financing activities</b>	<b>(1,890,675)</b>	<b>(287,661)</b>	<b>(2,178,336)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sales and maturities of investments	342,878	209,213	552,091
Purchases of investments	(353,617)	(35,013)	(388,630)
Interest on investments	1,416	20,123	21,539
<b>Net cash (used in) provided by investing activities</b>	<b>(9,323)</b>	<b>194,323</b>	<b>185,000</b>
<b>NET DECREASE IN RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>(397)</b>	<b>(139,193)</b>	<b>(139,590)</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>13,094</b>	<b>1,778,177</b>	<b>1,791,271</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 12,697</b>	<b>\$ 1,638,984</b>	<b>\$ 1,651,681</b>

See notes to combining financial statements.

(Continued)

**New York City Water and Sewer System**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**  
**For the year ended June 30, 2021**

	New York City		Total
	Water Board	Municipal Water Finance Authority (in thousands)	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 865,949	\$ (45,328)	\$ 820,621
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	1,308	-	1,308
Depreciation	972,125	-	972,125
Other operating expenses			
paid for with bond proceeds	60,484	-	60,484
Pollution remediation expense	5,166	-	5,166
Changes in assets and liabilities:			
Pollution remediation liability	16,364	-	16,364
Receivables - net	(78,156)	-	(78,156)
Receivable from the City	54,807	-	54,807
Residual interest in sold liens	4,653	-	4,653
Accounts payable	4,237	(527)	3,710
Revenues received in advance	(2,141)	-	(2,141)
Refunds payable	(5,195)	-	(5,195)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 1,899,601</b>	<b>\$ (45,855)</b>	<b>\$ 1,853,746</b>

The following are the noncash capital and related financing activities (in thousands):

Interest expense includes the amortization of net (premium) and discount in the amount of \$179,318 at June 30, 2021.

Capital expenditures in the amount of \$565,434 had been incurred but not paid at June 30, 2021.

The Water Board received federal, state, and other capital contributions of \$23,961 in fiscal year 2021.

See notes to combining financial statements.

(Concluded)

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS

June 30, 2022 and 2021

#### NOTE 1 - ORGANIZATION

The New York City Water and Sewer System (the "System") provides water supply, treatment and distribution, and sewage collection, treatment, and disposal for the citizenry of the City of New York (the "City"). The System, as presented in the accompanying combining financial statements, began operations on July 1, 1985, and is a joint operation consisting of two legally separate and independent entities: the New York City Municipal Water Finance Authority (the "Authority") and the New York City Water Board (the "Water Board"). The Authority is a public benefit corporation created in accordance with the New York City Municipal Water Finance Act (the "Act"), duly enacted into law as Chapter 513 of the laws of 1984 of the State of New York (the "State"), as amended by Chapter 514 of the laws of 1984 of the State of New York. The Water Board was created by Chapter 515 of the laws of 1984 of the State of New York. The Act also empowers the Authority to issue debt to finance the cost of capital improvements to the System and to refund any and all outstanding bonds and general obligation bonds that the City issued for water and sewer purposes. The Act empowers the Water Board to lease the System from the City and to set and collect water rates, fees, rents and other charges for use of, or for services furnished, rendered, or made available by, the System to generate enough revenue to pay debt service on the Authority's debt and to place the System on a self-sustaining basis.

The Financing Agreement by and among the City of New York, the New York City Municipal Water Finance Authority and the New York City Water Board dated as of July 1, 1985 provides that the Authority will issue bonds to finance the cost of capital investment and related costs of the System. It also sets forth the funding priority for debt service costs of the Authority, operating costs of the System, and the rental payment to the City, if requested.

The physical operation and capital improvements of the System are performed by the City's Department of Environmental Protection ("DEP") subject to contractual agreements with the Authority and the Water Board.

In accordance with Governmental Accounting Standards Board ("GASB") standards, the Water Board and the Authority are considered to be part of the same reporting entity (the "System") since they are fiscally interdependent. Accordingly, the accompanying combining financial statements for the System present the individual financial statements of the Water Board and the Authority as major funds. In addition, the accompanying combining financial statements present a total column, which represents the entity-wide financial statements of the System. Transactions and balances between the Water Board and the Authority are eliminated in the entity-wide combining financial statements.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Other significant accounting policies are:

##### ***Component Unit***

The System is a component unit of the City. The System leases the water and sewer-related capital assets from the City, which is responsible for the operations, maintenance and capital improvements of the System. The System reimburses the City for costs incurred for operations and maintenance and issues debt to pay for capital improvements.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

**Investments and Cash Equivalents**

Investments and cash equivalents primarily consist of securities of the United States and its agencies, guaranteed investment contracts, forward purchase agreements, and the State of New York obligations. All investments are carried at fair value with the exception of money market funds that are carried at cost plus accrued interest. For purposes of the combining statement of cash flows and combining statement of net position (deficit), the System generally considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Restricted Assets**

Proceeds from the issuance of debt and monies set aside for debt service and operation and maintenance of the System are classified as restricted cash and cash equivalents and restricted investments in the combining statements of net position (deficit). These restrictions are based on the requirements of the applicable bond resolutions.

**Lien Sales and Residual Interest in Sold Liens**

The City periodically sells tax liens secured by water and sewer rents and surcharges, for which the Water Board receives the applicable sale proceeds. At the time of sale, the Water Board recognizes the proceeds as operating revenue and removes the related receivables. The Water Board maintains a residual interest in the liens, which represents the amount estimated to be received by the Water Board if and when liens held by the purchasing trusts generate cash flows above the amounts needed by the trusts to pay their operating costs, bondholders, and satisfy reserve requirements. As of June 30, 2022, and 2021, the Water Board had a receivable from the Tax Lien Trust of \$63.4 million and \$59.8 million, respectively.

**Bond Premium and Discount and Bond Issuance Cost**

Bond premiums and discounts are capitalized and amortized over the life of the related bond issue, using the effective yield method. Bond premiums and discounts are presented as additions or reductions to the face amount of the long-term bonds payable on the combining statement of net position (deficit). The amortized bond premiums and discounts are an off set to interest expense on the combining statement of revenues, expenses and changes in net position (deficit). Bond issuance costs are recognized and expensed in the period incurred, except for bond insurance premiums that are amortized over the life of the related bonds.

**Utility Plant**

Utility plant acquired through purchase or internal construction is recorded at cost, net of retirements. It is the Water Board's policy to capitalize assets with a cost of \$50,000 or more and a useful life of three years or longer. Contributed utility plant is recorded at its estimated historical cost based on appraisals or other methods when historical cost information is not available, net of accumulated depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

	<u>Years</u>
Assets:	
Buildings	40-50
Water supply and wastewater treatment systems	15-50
Water distribution and sewage collection systems	15-75
Machinery and equipment	3-35
Vehicles	10

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

Maintenance and repairs of property are recorded as maintenance expense. Replacements and betterments are recorded as additions to utility plant. The System pays for certain improvements of assets that are not owned by the City or the System, as well as certain pollution remediation activities, through bond proceeds. These costs are reported as other operating expenses in the System's combining statement of revenues, expenses and changes in net position (deficit).

#### ***Contributed Capital***

The System received federal, state and other capital contributions of \$18.5 million and \$24.5 million in fiscal years 2022 and 2021, respectively. These amounts are reported in the System's combining statements of revenues, expenses and changes in net position (deficit) as "Capital contributions" below net income (loss) before capital contributions. In addition, the System received \$292.0 thousand and \$503.0 thousand in fiscal years 2022 and 2021, respectively, from Westchester County (the "County") to compensate the System for constructing a water conduit that provides treated water to the County. The County payments are reported as capital contributions in the System's combining statements of revenues, expenses and changes in net position (deficit) below net income (loss) before capital contributions and as receipts from contribution made by other organization in the System's combining statements of cash flows.

#### ***Operating Revenues and Operating Expenses***

Operating revenues consist of services provided to customers of the System. Revenues are reported net of allowances, discounts and refunds and are based on billing rates imposed by the Water Board and upon customers' water and sewer usage or, in some cases, characteristics of customer properties. The System records unbilled revenue at year end based on meter readings collected as of June 30. As of June 30, 2022 and 2021, the System reported credits of \$0 and \$18.8 million, respectively.

Operating expenses include, but are not limited to, costs incurred for maintenance, repair, and operations of the System; administration costs of the Water Board and the Authority; and rental payments to the City, if requested. In fiscal year 2022, no rental payment was requested by the City. In fiscal year 2021, the City requested and the System paid \$137 million.

#### ***Revenues Received in Advance***

Revenues received in advance of the period to which they relate are unearned and recorded as revenue when earned. Customer account credit balances are reported as a current liability "service credits on customer accounts" and are not included in accounts receivable.

#### ***Unamortized Deferred Bond Refunding Costs***

Deferred bond refunding costs represent the accounting gains or losses incurred in bond refundings. They are reported as "unamortized deferred bond refunding costs in "Deferred Inflows of Resources" and are amortized over the lesser of the remaining life of the old debt or the life of the new debt. The amortized deferred bond refunding cost is an off set to interest expense on the combining statement of revenues, expenses and changes in net position (deficit).

#### ***Use of Estimates***

The preparation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions in determining the amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent liabilities at the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

#### ***Pensions***

Net pension liabilities are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for New York City Employee Retirement System Qualified Pension Plan (“NYCERS QPP” or “Pension Plan”) in which it participates, which represents the Authority’s proportional share of excess total pension liability over the Pension Plan assets, actuarially calculated, of a cost-sharing multiple-employer plan, measured as of the fiscal year end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources are amortized over the weighted-average remaining service life of all participants in the qualified Pension Plan and recorded as a component of pension expense beginning with the period in which they are incurred. The change in the Authority’s proportion of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to the pension since the prior measurement date is recognized in the current reporting period over a closed period that is equal to the average of the expected remaining service lives of all employees provided with a pension through the Pension Plan.

For the contribution to the Pension Plan, the difference during the measurement period between the total amount of the Authority’s contribution and the amount of the Authority’s proportionate share of the total of such contributions from all employers and all nonemployee contributing entities is recognized in the Authority’s pension expense, beginning in the current reporting period, over a closed period that is equal to the average of the expected remaining service lives of all employees provided with pension through the Pension Plan. The amount not recognized in pension expense is reported as deferred outflow of resources or deferred inflow of resources related to the pension.

Projected earnings on qualified Pension Plan investments are recognized as a component (reduction) of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Changes in total pension liability arising from changes of benefit terms are required to be included in pension expense in the period the change is first reported in the net pension liability. The changes in the total pension liability resulting from (1) differences between expected and actual experience with regard to economic and demographic factors and (2) changes of assumptions regarding the expected future behavior of economic and demographic factors or other inputs are recognized as deferred outflows of resources or deferred inflows of resources related to the pension and included in the pension expense over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the Pension Plan.

#### ***Recent Accounting Pronouncements***

As a component unit of the City, the System implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the standards requiring implementation in the current year and standards that may impact the System in future years.

- In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are a financing of

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019 (postponed to fiscal years beginning after June 15, 2021. See GASB 95 below). The adoption of GASB 87 did not have an impact on the System's combining financial statements, as it did not enter into any material lease agreements applicable to the statement.

- In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, ("GASB 92"). GASB 92 enhances the comparability in accounting and financial reporting as well as improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements for GASB 92 are effective for reporting periods beginning after June 15, 2020 (postponed to fiscal years beginning after June 15, 2021. See GASB 95 below). The adoption of GASB 92 did not have an impact on the System's combining financial statements as the practice issues addressed in GASB 92 are not applicable to the System.
- In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, ("GASB 93"). GASB 93 addresses those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate ("IBOR") – most notably, the London Interbank Offered Rate ("LIBOR") resulting from global reference rate reform. LIBOR was expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Subsequently, LIBOR's administrator, the ICE Benchmark Administration (IBA), announced that the most widely used United States Dollar (USD) LIBOR tenors would continue to be published until June 30, 2023. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements for GASB 93 are effective for reporting periods beginning after June 15, 2020. (Postponed paragraphs 13 and 14 to fiscal years beginning after June 15, 2021. See GASB 95 below). The adoption of GASB 93 will not have an impact on the System's combining financial statements, as it expects to opt into the Fallback Protocol published by the International Swaps and Derivatives Association ("ISDA") on October 23, 2020, which provides a mechanism to incorporate the fallback rate equivalent.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* ("GASB 94"). GASB 94 improves financial reporting by addressing issues related to public-private and public-public partnership arrangements ("PPPs"). The requirements for GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The System has not completed the process of evaluating GASB 94, but it does not expect GASB 94 to have an impact on the System's combining financial statements as it does not enter into PPPs.
- In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, ("GASB 95"). GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The incremental adoption of GASB 95 did not have an impact on the System's combining financial statements.
- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users



## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

(governments). The requirements GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The System has not completed the process of evaluating GASB 96, but does not expect it to have an impact on the System's combining financial statements.

- In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, ("GASB 97"). The objectives of GASB 97 are to 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of GASB 97 are effective for fiscal years beginning after June 15, 2021. The adoption of GASB 97 did not have an impact on the System's combining financial statements, as the System does not have such plans.
- In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*, ("GASB 98"). GASB 98 replaces the term comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments with the term annual comprehensive financial report and its acronym ACFR. The requirements of GASB 98 are effective for fiscal years beginning after December 15, 2021, although early application was encouraged. The System will adopt GASB 98 in its 2022 report.
- In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, ("GASB 99"). GASB 99 enhances the comparability in accounting and financial reporting as well as improves the consistency of authoritative literature by addressing 1) several practice issues that have been identified during implementation and application of certain GASB Statements and 2) accounting and financial reporting for financial guarantees. The requirements for GASB 99 are effective for reporting periods ranging from immediate to fiscal years beginning after June 15, 2023. The incremental adoption of GASB 99 from now to fiscal year 2024 will not have an impact on the System's combining financial statements as the practice issues and the accounting and financial reporting for financial guarantees addressed in GASB 99 are not applicable to the System.
- In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections An Amendment* to GASB Statement No. 62, ("GASB 100"). GASB 100 enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements for GASB 100 are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Early application is encouraged. The System has not completed the process of evaluating GASB 100 but does not expect it to have an impact on the System's combining financial statements.
- In June 2022, GASB issued Statement No. 101, *Compensated Absences*, ("GASB 101"). GASB 101 updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements for GASB 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Early application is encouraged. The System has not completed the process of evaluating GASB 101 but does not expect it to have an impact on the System's combining financial statements.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

**NOTE 3 - UTILITY PLANT**

The following is a summary of utility plant activity for the fiscal years ended June 30, 2022 and 2021, respectively (in thousands):

	Balance at			Balance at			Balance at
	June 30, 2020	Additions	Deletions	June 30, 2021	Additions	Deletions	June 30, 2022
<b>NONDEPRECIABLE ASSETS:</b>							
Utility construction in progress	\$ 5,242,563	\$ 1,742,179	\$ 1,214,849	\$ 5,769,893	\$ 1,572,816	\$ 1,071,632	\$ 6,271,077
<b>DEPRECIABLE ASSETS:</b>							
Utility plant in service:							
Buildings	35,821	-	-	35,821	-	-	35,821
Machinery and equipment	5,216,995	127,664	5,671	5,338,988	214,887	4,741	5,549,134
Vehicles	274,757	3,133	-	277,890	9,995	-	287,885
Water supply and distribution and wastewater treatment and sewage collection systems	37,674,403	1,084,052	5,716	38,752,739	846,750	4,234	39,595,255
Total utility plant in service	43,201,976	1,214,849	11,387	44,405,438	1,071,632	8,975	45,468,095
Less accumulated depreciation for:							
Buildings	30,335	283	-	30,618	283	-	30,900
Machinery and equipment	2,636,524	257,873	3,511	2,890,886	267,753	2,479	3,156,160
Vehicles	124,056	11,144	-	135,200	11,285	-	146,485
Water supply and distribution and wastewater treatment and sewage collection systems	13,894,152	702,827	4,337	14,592,642	757,652	3,416	15,346,878
Total accumulated depreciation	16,685,067	972,127	7,848	17,649,346	1,036,973	5,895	18,680,423
Total utility plant in service - net	26,516,909	242,722	3,539	26,756,092	34,659	3,080	26,787,672
<b>Total capital assets - net</b>	<b>\$ 31,759,472</b>	<b>\$ 1,984,901</b>	<b>\$ 1,218,388</b>	<b>\$ 32,525,985</b>	<b>\$ 1,607,475</b>	<b>\$ 1,074,712</b>	<b>\$ 33,058,749</b>

**NOTE 4 - DEPOSITS AND INVESTMENTS**

***Cash and Cash Equivalents***

The System maintains deposits only at the depository banks designated by the New York City Banking Commission. Further, as required by the Water and Sewer System General Revenue Bond Resolution and the Water and Sewer System Second General Revenue Bond Resolution (the "resolutions"), every bank that holds the Authority's cash deposits is required to have its principal office in the State of New York and have capital stock, surplus, and undivided earnings aggregating at least \$100 million. As of June 30, 2022 and 2021, cash was comprised of bank deposits and there was no difference between the carrying amounts and bank balances.

At June 30, 2022 and 2021, the cash deposit balances were \$12.5 million and \$177 million, respectively. Of the June 30, 2022 and 2021 cash deposits, \$500,000 was covered by federal depository insurance, and the remaining balance was collateralized with the securities held by the Trustee in their name.

Restricted cash and cash equivalents were comprised of the following at June 30, 2022 and 2021, respectively (in thousands):

	<b>2022</b>	<b>2021</b>
<b>Restricted cash and cash equivalents:</b>		
Cash	\$ 12,474	\$ 176,719
Cash equivalents	2,181,646	1,474,962
<b>Total restricted cash and cash equivalents</b>	<b>\$ 2,194,120</b>	<b>\$ 1,651,681</b>

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

#### **Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the custodian, the System may not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the System's name. As of June 30, 2022 and 2021, the System had \$12.5 million and \$177 million, respectively, of deposits that were collateralized with securities held by the trustee's trust department in the trustee's name.

#### **Investments**

The System invests funds that are not immediately required for operations, debt service, or capital expenses. Funds held by the Authority are invested pursuant to the Authority's bond resolutions and in accordance with its investment guidelines, which restrict investments to obligations of, or guaranteed by, the United States of America, to certain highly rated obligations of the State of New York, to certain certificates of deposit and similar instruments issued by highly rated commercial banks, to certain highly rated corporate securities or commercial paper securities, to certain repurchase agreements with highly rated institutions, to certain investment agreements with highly rated institutions, to certain highly rated money market funds, and to certain highly rated municipal obligations. All accounts held by the Water Board are invested in accordance with the Water Board's investment guidelines, which restrict investments to obligations of, or guaranteed by, the United States of America and to certain repurchase agreements with highly rated institutions.

The System had the following restricted investments at June 30, 2022 and 2021 (in thousands):

Restricted Investments	2022			2021		
	Water Board	Municipal Water Finance Authority	Total	Water Board	Municipal Water Finance Authority	Total
U.S. Agencies securities	\$ -	\$ 253,465	\$ 253,465	\$ -	\$ 149,757	\$ 149,757
U.S. Treasury securities	136,920	1,626,498	1,763,418	273,854	475,959	749,813
New York State instrumentalities	-	23,520	23,520	-	49,393	49,393
Money market funds	148,735	319,412	468,147	102	1,131,610	1,131,712
Guaranteed investment contracts	-	88,127	88,127	-	95,096	95,096
Forward Purchase Agreements	-	10,678	10,678	-	23,310	23,310
Total investments including cash equivalents	285,655	2,321,700	2,607,355	273,956	1,925,125	2,199,081
Less amounts reported as cash equivalents	(148,735)	(2,032,910)	(2,181,645)	(102)	(1,474,860)	(1,474,962)
<b>Total Restricted Investments</b>	<b>\$ 136,920</b>	<b>\$ 288,790</b>	<b>\$ 425,710</b>	<b>\$ 273,854</b>	<b>\$ 450,265</b>	<b>\$ 724,119</b>

#### **Fair Value Hierarchy**

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The System has the following recurring fair value measurements as of June 30, 2022 and 2021 (in thousands):

- U.S. Agencies securities of \$253 million and \$150 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

- U.S. Treasury securities of \$1.76 billion and \$750 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- New York State instrumentalities of \$23.5 million and \$49.3 million, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- Money Market Funds of \$468 million and \$1.13 billion, respectively, are valued using a matrix-pricing model (Level 2 inputs).
- Guaranteed Investment Contracts (“GIC”) of \$88.1 million and \$95.1 million, respectively, are valued using the market approach, with observable inputs and using a matrix pricing technique (Level 2 inputs).
- Forward Purchase Agreements of \$10.7 million and \$23.3 million, respectively, are valued using the market approach, with observable inputs and using a matrix pricing technique (Level 2 inputs).
- Interest Rate Derivatives of (\$61.0) million and (\$121) million, respectively, are valued using the income approach (Level 2 inputs).

#### ***Credit Risk***

Both the Water Board and the Authority have Board of Directors approved investment guidelines and policies in place designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. Investments held by the System at June 30, 2022 and 2021 may include obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Agriculture Mortgage Corporation, and the Federal Farm Credit Bank. Also, held by the Authority, are direct obligations of agencies or public authorities of the State of New York, which at the time of purchase were rated in one of the two highest rating categories. In addition, the Authority has entered into investment agreements and a guaranteed investment contract with financial institutions whose long-term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long-term debt obligations were rated in one of the two highest rating categories for comparable types of obligations by each rating agency at the time such agreement or contract was entered into.

#### ***Interest Rate Risk***

Changes in interest rates impact fair value of investments. Investments by the System are not expected to be liquidated prior to maturity and investment agreements are not expected to be terminated prior to their expiration dates, thereby limiting cash flow exposure from rising interest rates.

#### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the System’s investment in a single issuer. The System’s investment policy limits the amount the System may invest in any particular issuer. As of June 30, 2022, the System had 67.6% of its restricted investments invested in Federally Guaranteed Securities, 9.7% in U.S. Agency Securities, 0.9% in Municipal Bonds, 3.8% in Guaranteed Investment Contract, and 18.0% in First American Government Obligation Money Market Fund.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Segmented time distribution on investments and cash equivalents as of June 30, 2022 (in thousands):

<u><b>Maturity Date</b></u>	<u><b>Fair Value Amount</b></u>
Under 6 months	\$ 2,358,143
Over 6 months to 1 year	170,845
Over 6 months to 1 year (GIC Adj.) <sup>1</sup>	2,089
Over 1 year to 3 years	53,827
Over 3 years and beyond	11,774
Over 3 years and beyond (Forward Purchase Agreement adj.) <sup>1</sup>	10,678
<b>Total</b>	<u><b>\$ 2,607,355</b></u>

<sup>1</sup> Includes the fair value of \$10.7 million related to Forward Purchase Agreements and \$2.1 million related to a GIC agreement.

**Custodial Credit Risk**

With respect to investments, custodial credit risk is the risk that, in the event of the failure of the custodian, the System may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of their government, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the government. All of the investments, except for the GIC, which had a fair value of \$88.1 million and \$95.1 million at June 30, 2022 and 2021, respectively, were not registered in the System's name. The types and amounts of investments are listed in the table on page 33.

**NOTE 5 - DERIVATIVE INSTRUMENTS**

As of June 30, 2022, the Authority had the following (in thousands):

<u><b>Type</b></u>	<u><b>Notional Amount</b></u>	<u><b>Effective Date</b></u>	<u><b>Maturity Date</b></u>	<u><b>Terms</b></u>	<u><b>Fair Value</b></u>	<u><b>Counterparty Credit Rating (Moody's/S&amp;P/Fitch)</b></u>
<b>Hedging Derivatives</b>						
Synthetic fixed rate	\$ 240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	\$ (36,595)	Aa2/AA-/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(24,396)	Aa2/A+/AA
Totals	<u>\$ 401,000</u>				<u>\$ (60,991)</u>	

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

As of June 30, 2021, the Authority had the following (in thousands):

<b>Type</b>	<b>Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Terms</b>	<b>Fair Value</b>	<b>Counterparty Credit Rating (Moody's/S&amp;P/Fitch)</b>
<b>Hedging Derivatives</b>						
Synthetic fixed rate	\$ 240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	\$ (72,409)	Aa2/AA-NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(48,273)	Aa2/A+/AA
Totals	<u>\$ 401,000</u>				<u>\$ (120,682)</u>	

LIBOR: London Interbank Offered Rate Index

***Hedging Derivative Instruments***

Effective October 24, 2007, the Authority executed two interest rate exchange agreements, in conjunction with its sale of \$401 million of Adjustable Rate Fiscal 2008 Series BB Second Resolution Bonds. Under these agreements, the Authority pays a fixed interest rate of 3.439% in exchange for a floating rate based on 67% of one-month LIBOR on the combined notional amount of \$401 million. The agreements are with two separate counterparties: one agreement with Goldman Sachs Mitsui Marine Derivative Products in the amount of \$241 million and the second agreement with Bank of America in the amount of \$160 million. These agreements allowed the Authority to achieve a fixed rate cost lower than the cost of conventional fixed rate debt at the time of issuance. The Authority's obligations under these interest rate exchange agreements are payable on a parity with the related Second Resolution revenue bonds.

***Credit Risk***

The risk that the counterparty (or its guarantor) will default under its agreement and the Authority would be left with unhedged variable rate debt. To continue to be hedged, the Authority may have to pay another entity to assume the position of the defaulting counterparty while not receiving an offsetting payment from the defaulting counterparty (full or in part). The Authority seeks to limit credit risk by contracting with highly rated counterparties or requiring highly rated guarantees of the counterparty's obligations. In the event that a counterparty loses its high rating, the Authority has built in two forms of protection into its swap agreements. First, the Authority has required the counterparty to post collateral if its ratings fall below "Aa3" by Moody's and "AA-" by Standard and Poor's and the mark-to-market in the Authority's favor exceeds specified threshold amounts. Second, the Authority has the right to terminate the Interest Rate Exchange Agreement if the counterparty is downgraded below "A3" and "A-" by Moody's and S&P, respectively. In addition, the Authority monitors the credit ratings and overall financial condition of its counterparties and may exercise its right to assign the agreement to another counterparty if necessary, in its judgment, to mitigate credit risk, even in the absence of a significant credit rating downgrade.

***Termination Risk***

The counterparties can terminate the agreements upon the occurrence of certain events, when the mark-to-market value is such that the Authority would owe a termination payment to the counterparty. The counterparties may terminate the agreement only upon the occurrence of certain events, such as payment defaults by the Authority, other defaults which remain uncured for 30 days after notice, bankruptcy or

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

insolvency of the Authority (or similar events), or a downgrade of the Authority's credit rating below "Baa2" and "BBB" by Moody's and Standard & Poor's, respectively.

#### ***Basis Risk***

Basis risk is the risk of a mismatch between two floating rates. For example, the amount the Authority receives under an Interest Rate Exchange Agreement may be lower than the amount the Authority is required to pay on the bonds associated with the transaction, which would require the Authority to make up the shortfall.

#### ***Interest Rate Risk***

Interest rate risk is the risk that changes in long-term interest rates will adversely affect the mark-to-market values of the Authority's swap instruments which may result in termination payments.

#### ***LIBOR Discontinuation Risk***

On March 5, 2021, ICE Benchmark Administration Limited ("IBA") and the Financial Conduct Authorities ("FCA") announced a LIBOR cessation date for most USD LIBOR tenors, including 1-month LIBOR, of June 30, 2023.

The Authority is evaluating available options to address LIBOR discontinuation risk in relation to its interest rate exchange agreements. Such options include adherence to the Fallback Protocol published by the International Swaps and Derivatives Association ("ISDA") on October 23, 2020, which provides a mechanism to incorporate the fallback rate equivalent to the sum of the Secured Overnight Financing Rate ("SOFR") and a spread adjustment of 11.448 basis points.

#### ***Financial Statements Effect***

The fair value of hedging derivatives at June 30, 2022 and 2021 was a negative \$61 million and negative \$121 million, respectively. The Authority does not currently own investment derivatives.

#### **NOTE 6 - AGREEMENT**

The Water Board is a party to an Agreement of Lease (the "Agreement") with the City, which transfers the water and sewer related property to the Water Board for the term of the Agreement. The Agreement term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the Agreement or the date on which all bonds, notes or other obligations of the Authority are paid in full or provision for such payment has been made pursuant to the applicable debt instrument. The Agreement provides for payments to the City to cover the following:

- a. An amount sufficient to pay the cost of administration, maintenance, repair, and operation of the Agreement property, which includes overhead costs incurred by the City that are attributable to the Agreement property, net of the amount of any federal, the State, or other operating grants received by the City; and
- b. An amount sufficient to reimburse the City for capital costs incurred by the City for the construction of capital improvements to the Agreement property that are not paid or reimbursed from any other source.

In addition to the payments described above, the Water Board pays rent to the City, if requested, each fiscal year in an amount not to exceed the greater of: (a) the principal and interest payable on general obligation bonds issued by the City for water and sewer purposes certified by the City to be paid within such

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

fiscal year; or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. The City did not request a rental payment in fiscal year 2022, The City requested, and the System paid a rental payment of \$137 million in fiscal year 2021.

A summary of operations and maintenance and rental expenses for the years ended June 30 is as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Water supply, treatment, transmission and distribution	\$ 565,587	\$ 528,347
Sewer collection and treatment systems	718,453	705,823
The City agency support cost	67,689	65,845
Fringe benefits	247,941	235,694
Judgments and claims	10,410	17,552
Reversal of prior year payables	(35,216)	(2,988)
Operation and maintenance	1,574,864	1,550,273
Rental payments to the City	-	137,000
<b>Total operations and maintenance expenses</b>	<b>\$ 1,574,864</b>	<b>\$ 1,687,273</b>

**NOTE 7 - PAYABLE TO AND RECEIVABLE FROM THE CITY**

As of June 30, 2022 and 2021, all utility construction and other projects financed by the Authority debt and recorded by the System, which have not been reimbursed to the City, are recorded as a payable to the City. The Authority had a payable to the City of \$523 million and \$565 million as of June 30, 2022 and 2021, respectively, net of the amount of state or federal and other capital grants recognized by the City.

As of June 30, 2022, and 2021, the Water Board had a receivable from the City of \$98.2 million and \$38.9 million, respectively. The receivable from the City is a result of the difference between budget estimates and actual expenses for operations and maintenance.

**NOTE 8 - OTHER OPERATING EXPENSES**

A summary of other operating expenses for the years ended June 30 is as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Pollution remediation	\$ 11,341	\$ 21,529
Payments for watershed improvements	16,268	58,164
Program expense	61,786	48,371
<b>Total other operating expenses</b>	<b>\$ 89,395</b>	<b>\$ 128,064</b>

The City's DEP manages both the System's operations and its capital program, and it also manages other projects with long-term benefits to the System, which do not result in capital assets of the System and that are paid for using the Authority's bond proceeds. Such long-term benefit projects include payment for environmental protection, related improvement in the watershed areas, and pollution remediation projects throughout the System. The System has estimated these amounts based on the current value of outlays



## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

expected to be incurred for pollution remediation, which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from the estimates.

The System offers its residential customers the option to enroll into a protection program on their water and sewer lines against any breakage for a monthly fee. The fee is included in the participating customer utility bill. This protection program is offered by American Water Resources. In fiscal years 2022 and 2021, the System incurred program expenses of \$61.8 million and \$48.4 million, respectively.

#### **NOTE 9 - LONG-TERM LIABILITIES**

##### ***Debt Program Description***

The Authority issues debt to finance the capital needs of the System. The Authority's debt is issued under two bond resolutions, the Water and Sewer System General Revenue Bond Resolution (the "First Resolution") and the Water and Sewer System Second General Revenue Bond Resolution ("the Second Resolution", each a "Resolution"). Bonds and notes issued by the Authority are special obligations of the Authority payable solely from and secured by a pledge of and lien on the gross revenues of the System, subject to the priorities set forth in each Resolution, and from money and securities in any of the funds and accounts defined and established under each Resolution, other than the arbitrage rebate fund, subject to the priorities set forth in each Resolution. The Water Board is obligated to set rates and collect revenues sufficient to fund principal and interest requirements, as well as to meet certain debt service coverage and operating cost funding requirements. Each Resolution specifies certain events of default, such as failure to pay debt service, the Authority's filing or otherwise seeking relief in bankruptcy court, failure to comply with the certain provisions of each respective Resolution and certain other governing documents, that under certain conditions could, upon the written request of the holders of not less than a majority in principal amount of the bonds outstanding under each Resolution, result in acceleration of debt service payments.

The debt program of the Authority includes commercial paper notes and long-term debt, as well as bond anticipation notes ("BANs") and interest-subsidized bonds issued to the New York State Environmental Facilities Corporation ("EFC"). While historically, proceeds of commercial paper notes were the main source of funds to reimburse the City for payments made for water and sewer capital projects, in fiscal years 2022 and 2021, the Authority exclusively relied on proceeds from BANs and long-term bond issuances to reimburse the City for the System's capital expenditures. The Authority issues long-term debt to retire commercial paper notes and BANs. The Authority also periodically issues refunding bonds to refinance higher-coupon debt and defeases bonds using current revenues.

The Authority is currently authorized to have outstanding up to \$600 million of commercial paper notes. As of June 30, 2022 and 2021, none were outstanding. As of June 30, 2022 and 2021, there was \$101 million and \$155 million of BANs outstanding, respectively. As of June 30, 2022 and 2021, the BANs principal balance of \$826 million and \$410 million, respectively, was available for future draw down.

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

#### **Changes in Long-Term Liabilities**

In fiscal years 2022 and 2021, the long-term debt was as follows (in thousands):

Bonds/BANs Payable	Balance at June 30, 2021	Additions	Deletions	Balance at June 30, 2022	Due Within One Year
First Resolution Bonds	\$ 889,871	\$ -	\$ (100,000)	\$ 789,871	\$ -
Second Resolution Bonds Issued to the Public	23,727,554	2,459,409	(1,901,245)	24,285,718	33,765
Second Resolution Bonds Issued to EFC	5,774,344	744,460	(653,360)	5,865,444	307,010
Second Resolution Notes Issued to EFC	155,029	375,835	(429,738)	101,126	95,194
Second Resolution Bonds-Direct Placement	500,000	-	-	500,000	-
<b>Total before premium and discounts</b>	<b>31,046,798</b>	<b>3,579,704</b>	<b>(3,084,343)</b>	<b>31,542,159</b>	<b>435,969</b>
Premium (discounts) - net	2,551,090	498,850	(333,221)	2,716,719	-
<b>Total debt</b>	<b>\$ 33,597,888</b>	<b>\$ 4,078,554</b>	<b>\$ (3,417,564)</b>	<b>\$ 34,258,878</b>	<b>\$ 435,969</b>

Bonds/BANs Payable	Balance at June 30, 2020	Additions	Deletions	Balance at June 30, 2021	Due Within One Year
First resolution bonds	\$ 1,314,871	\$ -	\$ (425,000)	\$ 889,871	\$ -
Second Resolution Bonds Issued to the Public	23,009,914	2,637,980	(1,920,340)	23,727,554	-
Second Resolution Bonds Issued to EFC	6,064,088	336,560	(626,304)	5,774,344	297,665
Second Resolution Notes Issued to EFC	-	155,029	-	155,029	-
Second Resolution Bonds-Direct Placement	500,000	-	-	500,000	-
<b>Total before premium and discounts</b>	<b>30,888,873</b>	<b>3,129,569</b>	<b>(2,971,644)</b>	<b>31,046,798</b>	<b>297,665</b>
Premium (discounts) - net	2,201,532	591,232	(241,674)	2,551,090	-
<b>Total debt</b>	<b>\$ 33,090,405</b>	<b>\$ 3,720,801</b>	<b>\$ (3,213,318)</b>	<b>\$ 33,597,888</b>	<b>\$ 297,665</b>

#### **Debt Program Administration**

In fiscal year 2022, the Authority issued \$1 billion of new money bonds to the public. The Authority used new money bond proceeds to finance capital improvements to the System and to pay for bond issuance costs. In addition, in fiscal year 2022, the Authority drew down \$376 million of BANs proceeds and applied them to finance capital improvements to the System.

During fiscal year 2022, as further detailed in the bullets below, the Authority issued \$1.9 billion of bonds to refund \$2.1 billion of outstanding bonds. These refunding transactions resulted in a cumulative accounting gain of \$93 million. The Authority reduced its aggregate debt service for principal and interest by \$585 million and obtained an economic benefit (present value savings) of \$447 million.

The following details the Authority's refunding activity in fiscal year 2022:

On September 23, 2021, the Authority issued \$630.3 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2022 Series BB. The Fiscal 2022 Series BB bonds refunded the following fixed rate Second Resolution bonds: \$335 million of Fiscal 2012 Series BB, \$297 million of Fiscal 2012 Series CC, \$15 million of Fiscal 2012 Series DD and \$88 million of Fiscal 2017CC-2. The Authority reduced its overall debt service by \$328 million and obtained an economic benefit of \$257 million.

On February 10, 2022, the Authority issued \$100.1 million of tax-exempt adjustable rate Second Resolution bonds, Fiscal 2022 Series DD. The Fiscal 2022 Series DD bonds refunded \$100 million of the First Resolution Fiscal 2001 Series F-1 variable rate demand bonds. The Authority increased its overall debt service by \$154 thousand and obtained an economic loss of \$336 thousand. The refunding freed up \$60 million of reserve funds.

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

On March 17, 2022, the Authority issued \$779 million of fixed rate Second Resolution bonds, Fiscal 2022 Series EE. The Fiscal 2022 Series EE bonds refunded the following fixed rate Second Resolution bonds \$421 million of Fiscal 2012 Series EE and \$502 million of Fiscal 2012 Series FF. The Authority reduced its overall debt service by \$245 million and obtained an economic benefit of \$179 million.

On April 21, 2022, the Authority issued the following fixed rate Second Resolution bonds to EFC: \$142 million of Fiscal 2022 Series 3, \$59 million Fiscal 2022 Series 5, \$212 million of Fiscal 2022 Series 6 and \$139 million of Fiscal 2022 Series 4 Direct Financing and \$192 million of Fiscal 2022 Series 7 Direct Financing. Proceeds of the bonds were used to refund \$153 million of Fiscal 2012 Series 2, \$139 million Fiscal 2012 Series 3, \$64 million of Fiscal 2013 Series 1, and to pay off \$430 million of 2021-1 BAN. The Authority reduced its overall debt service by \$13 million and obtained an economic benefit of \$12 million.

During fiscal year 2022, the Authority redeemed \$21 million of Fiscal 2012 Series FF bonds, and legally defeased \$18 million of Fiscal 2014 DD bonds, \$102 million of Fiscal 2015 FF bonds, \$73 million of Fiscal 2015 GG bonds, and \$29 million of Fiscal 2015 Series HH bonds, using \$255 million of current revenue. The defeasance transactions resulted in an accounting gain of \$9 million that is reported in the System's combining statements of revenues, expenses and changes in net position (deficit) and aggregate reduction of debt service of \$295 million.

From time to time the Authority defeases some of its bonds by placing proceeds of refunding bonds or current revenue in irrevocable escrow accounts to provide for all future debt service payments on the defeased bonds. The escrow account assets and the liability for the defeased bonds are not included in the System's combining financial statements. As of June 30, 2022 and 2021, \$564 million and \$770 million, of the Authority's defeased bonds, respectively, were still outstanding.

#### ***Index Rate Bonds***

As of June 30, 2022 and 2021, the Authority had outstanding \$500 million of index rate bonds, which were purchased by a bank through direct placement. The index rate bonds are adjustable rate bonds that pay interest based on a specified market index. The terms of the index rate bonds provide for a 9% rate of interest, commencing on an identified step-up date, if such bonds are not converted or refunded prior to such date. Interest rates on the Authority's index rate bonds cannot exceed 9%. In fiscal years 2022 and 2021, interest rates on the Authority's index rate bonds averaged 0.90% and 0.75%, respectively.

#### ***Adjustable Rate Demand Bonds***

As of June 30, 2022 and 2021, the Authority had \$4.1 billion and \$4.2 billion of adjustable rate demand bonds ("VRDBs") outstanding, respectively. VRDBs may be tendered at the option of their holders prior to their maturity. VRDBs are remarketed by remarketing agents on a daily or weekly basis. Interest rates determined by such remarketing agents for such periods represent the lowest rate of interest that would cause the VRDBs to have a market value equal to par. VRDBs interest rates cannot exceed 9%. In fiscal years 2022 and 2021, interest rates on the Authority's variable rate demand bonds averaged 0.19% and 0.07%, respectively.

The VRDBs are backed by either a Standby Bond Purchase Agreement ("SBPA") or a Letter of Credit ("LOC"), providing for the purchase of the VRDBs by a bank in the event they cannot be remarketed. In such case, the interest rate on the VRDBs would typically increase and would be determined by reference to specified index rates plus a spread (in some cases, with a minimum rate), up to a maximum rate of 25%. No VRDBs were held by such banks during the fiscal years ended June 30, 2022 and 2021. SBPAs and LOCs may be terminated by the respective banks upon the occurrence of specified events of default. None of the SBPAs or LOCs supporting adjustable rate demand bonds provides for acceleration. However, in connection with such LOCs, the Authority has agreed that, following a specified period of time in which the

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

LOC bank holds unremarketed VRDBs, the Authority will exchange such VRDBs for refunding bonds maturing within five years and providing for amortization during such period.

The Authority had the following adjustable variable rate demand bonds outstanding as of June 30, 2022:

The Authority had the following adjustable rate demand bonds at June 30, 2022

	<b>Series</b>	<b>Outstanding Principal Amount</b>	<b>SBPA or LOC Provider</b>	<b>Expiration or Optional Termination by Provider</b>
1	2014 AA-5	\$ 100,435,000	Mizuho Bank, Ltd.	08/19/22
2	2014 AA-6	100,435,000	Mizuho Bank, Ltd.	08/19/22
3	2012 A-1	100,000,000	Mizuho Bank, Ltd.	09/27/22
4	2012 A-2	100,000,000	Mizuho Bank, Ltd.	09/27/22
5	2011 DD-3A	50,000,000	US Bank, N.A.	10/16/22
6	2011 DD-3B	50,000,000	State Street Bank and Trust Company	10/16/22
7	2010 CC	200,000,000	Barclays Bank PLC	12/13/22
8	2001-F2	84,130,000	JPMorgan Chase Bank, N.A.	04/11/23
9	2009 BB-1	100,435,000	UBS AG	05/26/23
10	2009 BB-2	100,435,000	UBS AG	05/26/23
11	2003 F-1-A	50,000,000	Barclays Bank PLC	06/17/23
12	2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	07/07/23
13	2014 AA-3	100,000,000	TD Bank, N.A.	09/17/23
14	2008 BB-2	101,000,000	Bank of America, N.A.	10/20/23
15	2008 BB-5	50,000,000	Bank of America, N.A.	10/20/23
16	2016 AA-1	100,000,000	Bank of America, N.A.	10/27/23
17	2011 DD-1	100,000,000	TD Bank, N.A.	11/16/23
18	2003 F-1-B	50,000,000	US Bank, N.A.	02/27/24
19	2021 EE-1	100,000,000	US Bank, N.A.	03/06/24
20	2011 FF-1	100,000,000	Bank of America, N.A.	03/15/24
21	2008 BB-1	100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/24
22	2013 AA-2	150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/24
23	2013 AA-1	50,000,000	PNC Bank, NA	10/02/24
24	2003 F-2	101,655,000	Citibank, N.A.	10/25/24
25	2016 AA-2	100,000,000	PNC Bank, NA	10/25/24
26	2000-C	107,500,000	Sumitomo Mitsui Banking Corporation	05/04/25
27	2015 BB-2	100,000,000	Mizuho Bank, Ltd.	06/13/25
28	2015 BB-1	100,000,000	Bank of America, N.A.	07/09/25
29	2021 EE-2	225,500,000	State Street Bank and Trust Company	03/06/26
30	2011 FF-2	100,000,000	JPMorgan Chase Bank, N.A.	05/27/26
31	2015 BB-4	100,000,000	Barclays Bank PLC	06/17/26
32	2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	09/14/26
33	2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	09/14/26
34	2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	09/17/26
35	2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	09/17/26
36	2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/05/26
37	2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/05/26
38	2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/26
39	2014 AA-4	100,000,000	State Street Bank and Trust Company	01/20/27
40	2007 CC-2	50,000,000	State Street Bank and Trust Company	01/20/27
41	2017 BB-2	50,000,000	State Street Bank and Trust Company	01/20/27
42	2019 BB	100,000,000	TD Bank, N.A.	04/27/27
		<b>\$ 4,096,525,000</b>		

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

The Authority had the following adjustable variable rate demand bonds outstanding as of June 30, 2021:

	<b>Series</b>	<b>Outstanding Principal Amount</b>	<b>SBPA or LOC Provider</b>	<b>Expiration or Optional Termination by Provider</b>
1	2019 BB	\$ 100,000,000	Industrial and Commercial Bank of China Limited, New York Branch	09/10/21
2	2008 BB-1	100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
3	2013 AA-2	150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
4	2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
5	2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
6	2013 AA-1	50,000,000	PNC Bank, NA	10/02/21
7	2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
8	2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/05/21
9	2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/05/21
10	2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
11	2003 F-2	101,655,000	Citibank, N.A.	10/26/21
12	2016 AA-2	100,000,000	PNC Bank, NA	10/26/21
13	2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/21
14	2001-F1	100,000,000	Mizuho Bank, Ltd.	06/10/22
15	2015 BB-2	100,000,000	Mizuho Bank, Ltd.	06/14/22
16	2003 F-1-A	50,000,000	Barclays Bank PLC	06/17/22
17	2015 BB-4	100,000,000	Barclays Bank PLC	06/17/22
18	2014 AA-5	100,435,000	Mizuho Bank, Ltd.	08/19/22
19	2014 AA-6	100,435,000	Mizuho Bank, Ltd.	08/19/22
20	2012 A-1	100,000,000	Mizuho Bank, Ltd.	09/27/22
21	2012 A-2	100,000,000	Mizuho Bank, Ltd.	09/27/22
22	2011 DD-3A	50,000,000	US Bank, N.A.	10/16/22
23	2011 DD-3B	50,000,000	State Street Bank and Trust Company	10/16/22
24	2010 CC	200,000,000	Barclays Bank PLC	12/13/22
25	2001-F2	84,130,000	JPMorgan Chase Bank, N.A.	04/11/23
26	2009 BB-1	100,435,000	UBS AG	05/26/23
27	2009 BB-2	100,435,000	UBS AG	05/26/23
28	2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	07/07/23
29	2014 AA-4	100,000,000	Bank of Montreal	08/11/23
30	2014 AA-3	100,000,000	TD Bank, N.A.	09/17/23
31	2007 CC-2	50,000,000	Bank of Montreal	10/05/23
32	2017 BB-2	50,000,000	Bank of Montreal	10/05/23
33	2008 BB-2	101,000,000	Bank of America, N.A.	10/20/23
34	2008 BB-5	50,000,000	Bank of America, N.A.	10/20/23
35	2016 AA-1	100,000,000	Bank of America, N.A.	10/27/23
36	2011 DD-1	100,000,000	TD Bank, N.A.	11/16/23
37	2003 F-1-B	50,000,000	US Bank, N.A.	02/27/24
38	2021 EE-1	100,000,000	US Bank, N.A.	03/06/24
39	2011 FF-1	100,000,000	Bank of America, N.A.	03/15/24
40	2000-C	107,500,000	Sumitomo Mitsui Banking Corporation	05/04/25
41	2015 BB-1	100,000,000	Bank of America, N.A.	07/09/25
42	2021 EE-2	225,500,000	State Street Bank and Trust Company	03/06/26
43	2011 FF-2	100,000,000	JPMorgan Chase Bank, N.A.	05/27/26
		<b>\$ 4,196,525,000</b>		

**Adjustable Rate Remarketed Securities<sup>SM</sup>**

As of June 30, 2022 and 2021, the Authority had outstanding \$100 million and \$0 million of Adjustable Rate Remarketed Securities<sup>SM</sup>, respectively. The Authority's Adjustable Rate Remarketed Securities<sup>SM</sup> are adjustable rate bonds not supported by a credit or liquidity facility. Upon any failure to remarket tendered Adjustable Rate Remarketed Securities<sup>SM</sup>, such Adjustable Rate Remarketed Securities<sup>SM</sup>, if not purchased

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

by the Authority, will continue to be held by the tendering holders, and all of the Adjustable Rate Remarketed Securities<sup>SM</sup> of the applicable series will bear interest at an increased rate of interest of 12%.

Debt service requirements to maturity, including amounts relating to BANs with maturities greater than one year at June 30, 2022 are as follows (in thousands):

	Bonds		Bonds and Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest <sup>1</sup>	Principal	Interest <sup>1</sup>	
Year ending June 30,					
2023	\$ 33,765	\$ 1,014,033	\$ 402,204	\$ 252,090	\$ 1,702,092
2024	337,175	1,012,682	285,335	235,441	1,870,633
2025	409,205	996,750	290,043	223,361	1,919,359
2026	432,070	976,827	293,578	211,006	1,913,481
2027	489,545	956,721	297,365	198,624	1,942,255
2028-2032	2,471,035	4,428,051	1,429,975	807,002	9,136,063
2033-2037	3,600,275	3,847,013	1,247,115	524,352	9,218,755
2038-2042	5,377,890	2,983,401	862,775	321,641	9,545,707
2043-2047	6,899,565	1,707,509	836,329	151,669	9,595,072
2048-2052	5,025,065	381,304	521,850	32,804	5,961,023
<b>Total</b>	<b>\$ 25,075,590</b>	<b>\$ 18,304,291</b>	<b>\$ 6,466,569</b>	<b>\$ 2,957,990</b>	<b>\$ 52,804,440</b>

<sup>1</sup> Projected interest expense for adjustable rate demand bonds and adjustable rate remarketed securities for fiscal year 2023 and thereafter is calculated using weighted-average interest rate as of June 30, 2022 of 0.73%. Projected interest expense for direct placement index rate bonds for fiscal year 2023 and thereafter is calculated using weighted-average interest rate as of June 30, 2022 of 1.58%. Interest rates on adjustable rate bonds are determined on a daily or weekly basis in accordance with the terms of such bonds.

**Asset Retirement Obligations (“ARO”)**

Existing laws and regulations require the System to take specific action when retiring chemical and petroleum storage tanks. The System has 459 above and underground tanks with a capacity ranging from 10 to 100,000 gallons. The New York State Department of Conservation Under Title 6 of the New York Codes, Rules and Regulations requires that the System take specific steps to permanently take out the service including the removal, transportation and disposal of liquid, sludge, hazardous waste, piping and the tanks themselves; and to take remedial actions on the area surrounding the tanks. Based on contract estimates and invoice for similar projects, the System’s ARO for storage tanks was \$15 million as of June 30, 2022 and 2021, respectively, with tanks having a remaining useful life ranging from 0 to 39 years.

DEP has entered into office space lease agreements requiring the removal of affixed furnishings including condensed filing systems, HVAC units, and distributions systems and the restoration of premises to original condition existing prior to installation of fixtures for which the System is responsible for paying. Based on engineer and architectural estimates, the ARO for leases was \$2.8 million as of June 30, 2022 and 2021, respectively. The remaining lease terms range from two to three years.

## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

#### ***Commitments and Contingencies***

*Construction* - The System had contractual commitments of approximately \$6 billion and \$5.1 billion at June 30, 2022 and 2021, respectively, for water and sewer projects.

*Risk Financing Activities* - The System is self-insured and carries no commercial or insurance policies other than directors and officer's insurance for the Authority. Any claims made against the System are resolved through the City's legal support, and the amounts of the maximum liability for such judgments are described in the claims and litigation section below. The System is subject to claims for construction delays, property damage, personal injury, and judgments related to delays in construction deadlines under consent agreements.

*Claims and Litigation* - In accordance with the Agreement, the Water Board is required to reimburse the City for any judgment or settlement paid by the City arising out of a tort claim to the extent that the City's liability is related to capital improvements and the operation or maintenance of the System. However, in no event shall the payment made to the City, in any fiscal year, exceed an amount equal to 5% of the aggregate revenues shown on the prior year's audited combining financial statements of the System. In addition, the System is required to reimburse the City, to the extent requested by the City, for the payment of any judgment or settlement arising out of a contract claim with respect to the construction of capital improvements of the System. In addition, the City has agreed, subject to certain conditions, to indemnify the Authority, the Water Board, and their staffs against any and all liability in connection with any act done or omitted in the exercise of their powers, which is taken or omitted in good faith in pursuance of their purposes under the Act. Currently, the City is a defendant in a significant number of lawsuits pertaining to the System. The litigation includes, but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contract, condemnation proceedings, and other alleged violations of law. As of June 30, 2022, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$433 million. This amount is included in the estimated liability for unsettled claims, which is reported in the City's statement of net position (deficit). The potential future liability is the City's best estimate based on available information. The estimate may be revised as further information is obtained and as pending cases are litigated.

*Arbitrage Rebate* - To maintain the exemption from federal income tax of interest on bonds issued subsequent to January 1, 1986, the System will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the IRC of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess amount earned on all non-purpose obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds, or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter and within 60 days after retirement of the bonds. During fiscal years 2022 and 2021, the System paid \$2.9 million and \$280 thousand, respectively, in arbitrage rebates. At June 30, 2022 and 2021, the Authority had a liability of \$1.8 million and \$4.3 million, respectively. These amounts are included in accounts payable in the combining statements of net position (deficit).

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

**NOTE 10 - RESTRICTED ASSETS**

As of June 30, 2022 and 2021, certain cash, investments, and accrued interest of the System were restricted as follows (in thousands):

	<b>2022</b>	<b>2021</b>
<b>The Water Board</b>		
Operation and maintenance reserve fund	\$ 285,656	\$ 278,207
Local water fund	12,258	8,344
WB Expense Fund	10	-
Subtotal - The Water Board	<u>297,924</u>	<u>286,551</u>
<b>The Authority</b>		
Revenue fund	1,274,282	1,072,000
Debt service reserve fund	309,211	389,571
Construction fund	608,635	378,290
Arbitrage rebate fund	73	1,768
Escrow accounts	129,705	247,620
Subtotal - The Authority	<u>2,321,906</u>	<u>2,089,249</u>
<b>Total restricted assets</b>	<u><u>\$ 2,619,830</u></u>	<u><u>\$ 2,375,800</u></u>

The operation and maintenance reserve fund is established as a depository to hold a reserve as required by the First Resolution. As of June 30 of each year, the reserve fund is required to hold one-sixth of the operating expenses as set forth in the following year's annual budget. It is funded through the cash receipts of the Water Board.

The local water fund is established as the account to which all revenues are deposited. Its assets are subject to the payment priority set forth in the Resolutions.

The revenue fund is established as a depository to fund the debt service, the Authority's expenses, debt service reserve, and escrow accounts. It is funded through cash transfers from the Water Board.

The debt service reserve fund is established as a depository to hold the First Resolution bond maximum annual debt service requirement for the next or any future fiscal year. It is funded through revenue bond proceeds and the revenue fund.

The debt service fund is established as a depository to pay all principal and interest payments on the Authority's debt for the current fiscal year. It is funded through the revenue fund. On or prior to June 30, the balances in the debt service fund are transferred to the revenue fund.

The construction fund is established as a depository to pay all capital construction costs incurred by the City and reimbursed by the Authority. It is funded through the proceeds of commercial paper, bond, and note sales.

The escrow accounts are established as a depository to refund debt in future years. It is funded through bond proceeds or the revenue fund.



## New York City Water and Sewer System

### NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

#### NOTE 11 - PENSION PLANS

##### ***General information about the Pension Plan***

*Plan Description* - The Authority's eligible employees are provided with pension benefits through the New York City Employee Retirement System Qualified Pension Plan. The Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the New York City Employee Retirement System ("NYCERS").

The Pension Plan functions in accordance with existing State statutes and the City laws which are the basis by which benefit terms and the Authority's and its members' contribution requirements are established and amended. NYCERS issues a publicly available financial report that can be obtained from NYCERS management at 335 Adams Street, Brooklyn, New York 11201 or at [www.nycers.org](http://www.nycers.org).

*Benefits Provided* - The Pension Plan provides pension benefits to retired employees generally based on the salary, length of service, member contributions, and membership tier ("Tier"). For certain members, voluntary member contributions also impact pension benefits provided. In addition, the Pension Plan provides automatic cost-of-living-adjustments ("COLA") and other supplemental pension benefits to certain retirees and beneficiaries. Subject to certain conditions, members become fully vested as to benefits upon the completion of five years of service for Tier I to Tier IV and ten years of service for Tier VI. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. The Pension Plan also provides death benefits.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983, and 2012, significant amendments made to the State Retirement and Social Security Law modified certain benefits for employees joining the Pension Plan on or after the effective date of such amendments, creating membership tiers. Currently, there are several Tiers, referred to as Tier I, Tier II, Tier III, Tier IV, and Tier VI. Members are assigned a Tier based on membership date. Chapter 18 of the Laws of 2012 (Chapter 18/12) amended the retirement benefits of public employees who establish membership in the Pension Plan on or after April 1, 2012. Chapter 18/12 is commonly referred to as Tier VI. Tier VI is expected to reduce future employer pension contributions.

Certain members of Tier I and Tier II of the NYCERS QPP have the right to make voluntary excess contributions, which are supplemental voluntary contributions. Members can elect to direct these contributions to an investment program under which such accumulated contributions are credited with interest at rates set by statute. The Authority does not have any Tier I, Tier II, or Tier III members.

*Contributions and Funding Policy* - Contribution requirements of participating employers and active members are determined in accordance with State statutes and City laws and are generally funded within the appropriate fiscal year. Effective with fiscal year 2006, employer contributions are actuarially determined under the One-Year Lag Methodology ("OYLM"). Actuarial valuations of the NYCERS are performed using a June 30, XX-2 actuarial valuation due date to determine Fiscal Year XX employer contribution (e.g. June 30, 2021 (Lag) actuarial valuations are used to determine Fiscal Year 2023 employer contributions). This is referred to as OYLM.

In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, Tier III and Tier IV members are not required to make any contributions after the 10th anniversary of their membership date or completion of 10 years of credited service, whichever is earlier. Tier VI members who joined between April 1, 2012 and March 31, 2013 contribute 3% of salary. Beginning April 1, 2013, when Tier VI took effect, joining members contribute between 3.0% and 6.0% of salary, depending on their salary level.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Employer contributions are determined annually to be an amount that, together with member contributions and investment income, provides for the Pension Plan assets to be sufficient to pay benefits when due. The aggregate statutory contribution due to NYCERS QPP from all participating employers for fiscal years 2022 and 2021 was \$3.8 billion, and the amount of the Authority's contribution to the Pension Plan for such fiscal years 2022 and 2021 was \$214 thousand and \$201 thousand, respectively.

***Information on the Employer's Proportionate Share of the Collective Net Pension Liability***

The Authority's net pension liabilities reported as of June 30, 2022 and 2021 were measured as of those fiscal year-end dates. The total pension liability used to calculate those net pension liabilities were determined by actuarial valuations as of June 30, 2020 and 2021 and rolled forward to the measurement dates of June 30, 2021 and 2022.

Information about the Authority net position and additions to and deductions from NYCERS QPP fiduciary net position has been determined on the same basis as that reported by NYCERS QPP. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan, and investments are reported at fair value.

***Actuarial Assumptions***

Measurement of the total net pension liability, on which the net pension liability is based, requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement.

The following table provides a brief description of the significant assumptions used in the June 30, 2021 actuarial valuation to determine the updated preliminary fiscal year 2023 Authority's contributions:

<b>Actuarial Assumptions used for determining updated preliminary fiscal year 2023 Authority's Contributions</b>	
<b>Item</b>	<b>Updated Preliminary Fiscal Year 2023 Authority's Contributions</b>
Valuation Date	June 30, 2021 (Lag).
Assumed Rate of Return on Investment	7.0% per annum, net of investment expense.
Post-Retirement Mortality	Tables adopted by the Boards of Trustees during fiscal year 2019. Applies mortality improvement scale MP-2020 published by the Society of Actuarie
Active Service:	
Withdrawal, Death, Disability, and Retirement	Tables adopted by the Boards of Trustees during fiscal year 2019.
World Trade Center Benefit	Estimates of certain obligations.
Salary Increases	Tables adopted by the Boards of Trustees during fiscal year 2019. In general, Merit and Promotion Increases plus assumed General Wage Increase of 3.0% per year.
Inflation	Consumer Price Index (CPI) of 2.5% per year.
Assumed Cost-of-Living Adjustments	Auto COLA - 1.5% per year; Escalation - 2.5% per year
Liability Loads	Estimates of certain obligations.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

In accordance with the Administrative Code of the City of New York and with appropriate practice, the NYCERS Board of Trustees of the actuarially-funded Pension Plan is to periodically review and adopt certain actuarial assumptions as proposed by the Chief Actuary of the New York City Retirement Systems (the "Actuary") for use in the determination of Employer Contributions, which are also generally used to determine the total pension liability, as applicable.

The fiscal year 2022 results reflect changes in the actuarial assumptions and methods since the prior year. The changes are primarily the result of an experience study performed by Bolton, Inc. which compared actual experience of the systems to that expected based on the prior set of actuarial assumptions and methods. These new actuarial assumptions and methods were adopted by each of the NYCRS retirement boards in early calendar year 2022.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rates of Return</b>
U.S. Public Market Equities	27.0%	7.0%
Developed Public Market Equities	12.0%	7.2%
Emerging Public Market Equities	5.0%	9.0%
Fixed Income	30.5%	2.5%
Private Equities	8.0%	11.3%
Private Real Estate	7.5%	6.7%
Infrastructure	4.0%	6.0%
Opportunistic Fixed Income	6.0%	7.4%
<b>Total</b>	<b>100.00%</b>	

***Discount Rate***

The discount rate used to measure the total pension liability of the Pension Plan as of June 30, 2022 and 2021, was 7% per annum. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, the Pension Plan fiduciary net position is projected to be available to make all projected future benefit payments of current active and non-active members. Therefore, the long-term expected rate of return on the pension fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

***Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following table presents the Authority's proportionate share of the net pension liability using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage point higher (8.0%) than the current rate (in thousands):

	<b>Sensitivity Analysis</b>		
	<b>Net Pension Liability as of June 30, 2022</b>		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability	\$ 1,613	\$ 1,014	\$ 507

***Pension Liability***

At June 30, 2022 and 2021, the Authority reported a liability of \$1.01 million and \$342 thousand, respectively, for its proportionate share of the net pension liability. The Authority's portion of the net pension liability was based on projection of the Authority's long-term share of contributions to the Pension Plan relative to the projected contributions of all participating City governments and their component units, actuarially determined. At June 30, 2022 and 2021, the Authority's proportion was 0.005%.

***Pension Expense***

For the years ended June 30, 2022 and 2021, the Authority recognized pension expense of \$155 and \$0, respectively.

***Deferred Outflows and Inflows of Resources***

At June 30, 2022, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 87,910	\$ 22,277
Changes of assumptions	167	32,423
Net difference between projected and actual earnings on pension plan investments	185,238	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	433,650	70,063
<b>Total</b>	<b>\$ 706,965</b>	<b>\$ 124,763</b>

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2022 will be recognized in pension expense as follows:

<b>Year ended June 30,</b>	<b>Amount</b>
2023	\$ 72,931
2024	122,861
2025	113,561
2026	114,999
2027	13,105

**NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS**

***Plan Description***

The Authority's Other Postemployment Benefits Plan ("OPEB Plan") is a single-employer defined benefit plan administered by the New York City Office of Labor Relations.

<https://www1.nyc.gov/site/actuary/reports/reports.page>

The plan provides certain health and related benefits to eligible retirees and their beneficiaries/dependents of the New York City Municipal Water Finance Authority in accordance with GASB Statement No. 75 ("GASB 75") *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The OPEB Plan consists of three programs: (1) the New York City Health Benefits Program; (2) Welfare Fund Program; and (3) Medicare Part B Program. The Authority's policy is to follow the eligibility criteria applicable to retirees of the City and to provide benefits substantially the same as those provided to the City retirees and eligible beneficiaries/dependents.

There are three classes of employees: active, inactive and retirees.

The following presents a summary of the Authority's census data used in the June 30, 2022 and 2021 OPEB actuarial valuations:

<b>Group</b>	<b>2022</b>	<b>2021</b>
Active	10	11
Deferred Vested	2	1
Retired	5	5
<b>Total</b>	<b>17</b>	<b>17</b>

***Funding Policy***

The Authority is not required to provide funding for the OPEB Plan, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2022 and 2021, the Authority had five retirees and made contributions of \$18.8 thousand and \$18.7 thousand, respectively. Members are not required to contribute; although, retirees may elect basic health insurance programs and/or optional coverage that requires contributions. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plan. The OPEB Plan also reimburses covered retirees and eligible spouse

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

100% of the Medicare Part B premium rate applicable to a given year, and there is no retiree contribution to the welfare fund (the "Welfare Fund") that covers retirees for various health care benefits not provided through the basic coverage.

**Annual OPEB Cost and Net OPEB Liability**

The Authority's annual OPEB cost is calculated based on the annual expense ("Expense"), an amount that was actuarially determined in accordance with the parameters of GASB 75. Actuarial valuations involve estimates and assumptions about the probability of events far into the future. The entry age actuarial cost method was used in the actuarial valuation prepared as of June 30, 2021 for the fiscal year ended June 30, 2022, which was the basis for the fiscal year 2022 Expense calculation. Under this method, as used in this OPEB Plan valuation, the actuarial present value ("APV") of benefits ("APVB") of each individual included in actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The employer portion of this APVB allocated to the valuation year is the employer normal cost. The portion of this APVB that is not provided for on the valuation date by the APV of future employer normal cost or future member contributions is the total OPEB Plan liability. The excess of the total OPEB Plan liability over the plan fiduciary net position, which represents the assets of the plan, is the net OPEB Plan liability.

All changes in the net OPEB Plan liability as of June 30, 2022 and 2021 are being amortized over the future working lifetime of all plan participants for purposes of calculating the expense except for the amount of change in plan assets, which would be amortized over a five-year period using level-dollar amortization. This plan, however, is not assumed to have any assets.

**Total OPEB Liability**

The Authority's total OPEB Plan liabilities of \$1.8 million and \$1.9 million were measured as of June 30, 2022 and 2021, respectively, and were determined by actuarial valuations as of those dates.

The following table shows changes in the Authority's net OPEB Plan liability for fiscal years 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Balance at beginning of the year	\$ 1,928	\$ 1,929
Changes for the year:		
Service cost	112	112
Interest	44	54
Difference between expected and actual experience	334	(114)
Changes in assumptions or other inputs	(628)	(34)
Actual benefit payments	(19)	(19)
Net changes	<u>(157)</u>	<u>(1)</u>
Net OPEB Plan liability - end of the year	<u>\$ 1,771</u>	<u>\$ 1,928</u>

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

The Authority's annual OPEB Plan expense for fiscal years 2022 and 2021 was as follows (in thousands):

	2022	2021
<b>Components</b>		
Service costs	\$ 112	\$ 112
Interest on the total OPEB Plan liability	44	54
Changes of assumptions	(138)	(59)
Difference between expected and actual experience	68	26
<b>Total OPEB Plan Expense</b>	<b>\$ 86</b>	<b>\$ 133</b>

***Funded Status and Funding Progress***

As of June 30, 2022, the most recent actuarial measurement date, the cost was 0% funded. The total OPEB Plan liability for benefits was \$1.8 million, and the plan fiduciary net position was \$0 million, resulting in a net OPEB Plan liability of \$1.8 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$1.2 million, and the ratio of the net OPEB Plan liability to the covered payroll was 153.2%. The impact on the net OPEB Plan liability of a 1% increase or decrease in the discount rate and trend is included below.

***Actuarial Methods Assumptions and Other Inputs***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, demographic, salary increase, mortality, and the healthcare cost trend. The actuarial assumptions used in the fiscal year 2022 and the fiscal year 2021 OPEB Plan valuations are a combination of those used in the New York City Employee Retirement Systems ("NYCERS") pension actuarial valuations and those specific to the OPEB Plan valuations.

Amounts determined regarding the funded status of the OPEB Plan and the annual Expense of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of the sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in total OPEB Plan liability, consistent with the long-term perspective of the calculations.

Certain actuarial assumptions used in the pension actuarial valuations of the NYCRS that were adopted by the Boards of the NYCRS during fiscal year 2019. The actuarial assumptions used in the fiscal year 2021 OPEB valuation are a combination of those used in the NYCRS pension actuarial valuations and those specific to the OPEB valuations.

For fiscal year 2019, the Office of the Actuary ("OA") conducted a full review of the actuarial assumptions and methods used to fund the NYCRS. These reviews led to formalized recommendations titled "Proposed Changes in Actuarial Assumptions and Methods Used in Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2018 for [NYCRS]," and were adopted by all five of the NYCRS Boards. These are available on the Reports page of the OA website ([www.nyc.gov/actuary](http://www.nyc.gov/actuary)).

On July 27, 2021, the actuary issued a memorandum titled "Proposed Changes to Actuarial Assumptions and Methods." The actuarial assumptions and methods described in that memorandum amend certain assumptions and methods from the 2019 A&M. This revised set of actuarial assumptions and methods are referred to as the "Revised 2021 A&M."

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

The OPEB Plan-specific actuarial assumptions used in the fiscal year 2022 OPEB Plan valuation are as follows:

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Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Discount Rate	4.09% per annum for the June 30, 2022 measurement date. 2.18% for the June 30, 2021 valuation date. <sup>1</sup>
Actuarial Cost Method	Entry Age Normal cost method, level percent of pay calculated on an individual basis.
Salary Increase	3.00% per annum which includes an inflation rate of 2.50% and a general wage increase rate of 0.50%. For more information see the Revised 2021 A&M Reports
Inflation	2.50%
Per-Capita Claims Costs	GHI/EBCBS plans are insured via a Minimum Premium arrangement while the HIP and many of the Other HMOs are community-rated. Costs reflect age-adjusted premiums for all plans.  Based on the 2020 State Report, the costs were projected with trend to the fiscal year starting at the valuation date. This valuation relies on the costs developed for the State valuation as communicated by the State's actuary, which were assumed to be suitable for this purpose.

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<sup>1</sup> Rates are based solely on the S&P Municipal Bond 20-Year High Grade Rate Index, since the plan has no assets, as per guidance under GASB 75.

Employer premium contribution schedules for the months of July 2021 and January 2022 were reported by the New York City Office of Labor Relations ("OLR"). In most cases, the premium contributions remained the same throughout the year. HIP HMO Medicare rates varied by date and by specific Plan options. These variations are the result of differing Medicare reimbursements. The various monthly rates were blended by proportion of enrollment. For other rates, where the January 2022 premium rate was different than the July 2021 premium rate, the valuation assumed that the January 2022 premium rate was more representative of the long-term cost of the arrangement.

These assumptions are generally unchanged from the previous valuation except as noted below. The NYCERS pension assumptions are provided in the five "Silver Books" available on the Reports page of The Office of the Actuary website ([www.nyc.gov/actuary](http://www.nyc.gov/actuary)).



**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

The probability of retirement set out in the 2019 Assumptions and Methods Report (2019 A&M) is assumed to be 100% at either age 63 or 70, depending upon the program of benefits for the individual employee. For the OPEB Plan valuation, 100% of the individuals remaining in service at these ages are assumed to either retire with a benefit or to terminate employment without a benefit, depending upon whether they have attained the requisite service.

Based on those assumptions, the City's OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB Plan payments for current active and inactive employees until 2028. After that time, benefit payments will be funded on a pay-as-you-go basis. The discount rate is the single equivalent rate which results in the same present value as discounting future benefit payments made from assets at the long-term expected rate of return and discounting future benefit payments funded on a pay-as-you-go basis at the Municipal Bond 20-year Index Rate.

Results for the OPEB Plans for Component Units are presented using a discount rate of the Municipal Bond 20-year Index Rate, since there is no pre-funding assumed for these plans.

The initial monthly premium rates used in the valuations are shown in the following table:

<b>Plan</b>	<b>Monthly Rates</b>	
	<b>2022</b>	<b>2021</b>
<b>HIP HMO</b>		
Non-Medicare Single	\$ 819.68	\$ 776.01
Non-Medicare Family	2,008.22	1,901.23
Medicare	190.47	181.58
<b>GHI/EBCBS</b>		
Non-Medicare Single	854.44	775.66
Non-Medicare Family	2,242.05	2,035.61
Medicare	201.80	194.14
<b>Other HMOs <sup>1</sup></b>		
Non-Medicare Single	1,242.93	1,160.34
Non-Medicare Family	3,440.67	2,701.42
Medicare Single	291.71	291.83
Medicare Family	580.41	576.92

<sup>1</sup> Other HMO premiums represent the weighted average of the total premium for medical (not prescription drug) coverage, including retiree contributions, of the HMO plans (other than HIP) based on actual enrollment.

**Welfare Fund**

For the fiscal year 2021 valuation, the Welfare Fund contribution reported for fiscal year 2022, including any reported retroactive amounts, was used as the per capita cost for valuation purposes.

Reported annual contribution amounts for the last two years are shown in Section VII-b to VII-f of the OPEB Plan valuation report dated September 9, 2022.

Welfare Fund rates are based on actual reported union Welfare Fund code for current retirees.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

The weighted-average annual contribution rates used for future retirees is shown below.

	<b>Annual Rate</b>	
	<b>2022</b>	<b>2021</b>
NYCERS	\$ 1,858	\$ 1,894

Medicare Part B Premiums are as follows:

<b><u>Calendar Year</u></b>	<b><u>Monthly Premium</u></b>
2017	\$ 113.63
2018	125.85
2019	134.43
2020	143.21
2021	146.97
2022	167.82

Medicare Part B premium reimbursement amounts have been updated to reflect the actual premium rates announced for calendar years through 2022. Due to limited cost-of-living increase in Social Security benefits, some Medicare Part B participants will not be charged the Medicare Part B premium originally projected or ultimately announced for those years. Thus, the valuation uses a blended estimate as a better representation of future Part B premium costs.

For the fiscal year 2022 OPEB Plan valuation, the annual premium used was \$1,880.80, which is equal to 12 times an average of the calendar year 2021 and 2022 monthly premiums shown.

For calendar year 2022, the monthly premium of \$167.82 was determined as follows:

- (a) 3.5% of the basic \$104.90 monthly hold-harmless amount, assuming that there would be no claims made for the slight increase in Part B premiums for continuing retirees; and
- (b) 96.5% of the announced premiums of \$170.10 for calendar year 2022, representing the proportion of the Medicare population that will pay the announced amount.

An additional 11.4% load is added to the base Medicare Part B premium amounts each year to account for the income-related Medicare Part B premiums for high-income individuals. This assumption was updated from the previous valuation to reflect more recent experience.

***Medicare Part B Premium Reimbursement Assumption***

90% of Medicare participants are assumed to claim reimbursement; based on historical data.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

**Health Care Cost Trend Rate (“HCCTR”)**

**HCCTR ASSUMPTIONS**

<b>Fiscal Year Ending</b>	<b>Pre-Medicare Plans</b>	<b>Medicare Plans</b>	<b>Medicare Part B Premiums</b>	<b>Welfare Fund Contributions</b>
2022	6.50	4.90	5.29 <sup>1</sup>	3.50
2023	6.25	4.80	5.00	3.50
2024	6.00	4.80	5.00	3.50
2025	5.75	4.70	5.00	3.50
2026	5.50	4.70	5.00	3.50
2027	5.25	4.60	5.00	3.50
2028	5.00	4.60	5.00	3.50
2029	4.75	4.50	5.00	3.50
2030 and Later	4.50	4.50	5.00	3.50

<sup>1</sup> Reflects actual calendar year premium for the first 6 months of FY22 (July 2022 to December 2022) and 5.0% trend for the remaining 6 months.

**Age and Gender-Related Morbidity**

The premiums are age and gender adjusted for GHI/EBCBS, HIP and Other HMOs. The assumed relative costs of coverage are consistent with information presented in the 2013 study *Health Care Costs - From Birth to Death*, sponsored by the Society of Actuaries.

For non-Medicare costs, a sample of factors used are:

<b>Age</b>	<b>Male</b>	<b>Female</b>	<b>Age</b>	<b>Male</b>	<b>Female</b>
20	0.170	0.225	45	0.355	0.495
25	0.146	0.301	50	0.463	0.576
30	0.181	0.428	55	0.608	0.671
35	0.227	0.466	60	0.783	0.783
40	0.286	0.467	64	0.957	0.917

Children costs assumes a factor of 0.229.

The premiums are age and gender adjusted for GHI/EBCBS, HIP, and other HMOs. The assumed relative costs of coverage are consistent with information presented in the 2013 study “Health Care Costs - From Birth to Death”, sponsored by the Society of Actuaries.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Medicare costs prior to age 65 assume an additional disability-related morbidity factor. A sample of factors are:

<b>Age</b>	<b>Male</b>	<b>Female</b>	<b>Age</b>	<b>Male</b>	<b>Female</b>
20	0.323	0.422	65	0.919	0.867
25	0.278	0.565	70	0.946	0.885
30	0.346	0.804	75	1.032	0.953
35	0.432	0.876	80	1.122	1.029
40	0.545	0.878	85	1.217	1.116
45	0.676	0.929	90	1.287	1.169
50	0.883	1.082	95	1.304	1.113
55	1.159	1.260	99 and Older	1.281	0.978
60	1.493	1.470			

The age adjustment for the non-Medicare GHI/EBCBS premium reflects a 4% reduction in the GHI portion of the monthly premium (with the GHI portion representing \$391.39 out of the \$854.44 for single coverage and \$1,038.14 out of the \$2,242.93 for family coverage for fiscal year 2022 rates) and a 2% reduction in the EBCBS portion of the premium (with the EBCBS portion representing the remainder of the premiums) for the estimated margin that is expected to be returned.

***Mortality Rates***

The mortality improvement scale was updated to MP-2020 to reflect more recent information published by the Society of Actuaries in October 2020.

***Participation***

Active participation assumptions are based on actual elections for current retirees. Portions of current retirees not eligible for Medicare are assumed to change elections upon attaining age 65 based on the patterns of elections of Medicare-eligible retirees. For current retirees who appear to be eligible for health coverage but have not made an election (i.e., non-filers), the valuation reflects single GHI/EBCBS coverage and Part B premium and benefits only, to approximate the obligation if these individuals were to file for coverage.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

For future retirees, the portion assumed not to file for future benefits. Detailed assumptions appear in the following table.

<b>PLAN PARTICIPATION ASSUMPTIONS</b>	
<b>Benefits</b>	<b>NYCERS</b>
Pre-Medicare	
- GHI/EBCBS	75%
- HIP HMO	18
- Other HMO	2
- Waiver	5
Medicare	
- GHI	75
- HIP HMO	16
- Other HMO	5
- Waiver	4
Post-Medicare Migration	
- Other HMO to GHI	0
- HIP HMO to GHI	10
- Pre-Med. Waiver	
- To GHI @ 65	30
- To HIP @ 65	10

This non-filer group also includes some participants who do not qualify for coverage because they were working less than 20 hours a week at termination.

***Dependent Coverage***

Dependent coverage is assumed to terminate when a retiree dies.

***Dependents***

Dependent assumptions based on distribution of coverage of recent retirees are shown in the following table. Actual spouse data is shown for current retirees. Child dependents of current retirees are assumed to receive coverage until age 26.

Based on experience under the OPEB Plan for NYCERS, male retirees were assumed to be four years older than their wives, and female retirees were assumed to be two years younger than their husbands.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Children are assumed to be covered for eight years after retirement. For employees eligible to retire based only on service, children are assumed to be covered for an additional five years.

**DEPENDENT COVERAGE ASSUMPTIONS**

<b>Group</b>	<b>NYCERS</b>
Male	
- Single Coverage	43
- Spouse	38
- Child/No Spouse	4
- Spouse and Child	15
<b>Total</b>	<b>100%</b>
Female	
- Single Coverage	62
- Spouse	28
- Child/No Spouse	5
- Spouse and Child	5
<b>Total</b>	<b>100%</b>

***Demographic Assumptions***

The actuarial assumptions used in the Fiscal Year 2022 OPEB valuation are a combination of those used in the NYCERS pension actuarial valuations and those specific to the OPEB valuations.

For Fiscal Year 2019, the Office of the Actuary conducted a full review of the actuarial assumptions and methods used to fund the NYCERS. These revised assumptions are available on the Reports page of the OA website ([www.nyc.gov/actuary](http://www.nyc.gov/actuary)) and are referred to as the 2019 A&M Reports.

On July 27, 2021, the Actuary issued a memorandum titled “Proposed Changes to Actuarial Assumptions and Methods.” The actuarial assumptions and methods described in the memorandum amend certain assumptions and methods from the 2019 A&M. This revised set of actuarial assumptions and methods are referred to as the “Revised 2021 A&M.”

***COBRA Benefits***

Although COBRA beneficiaries contribute 102% of “premiums,” the valuation includes an additional estimated cost above the value of their COBRA contribution because CORBA participants typically utilize services at a much higher rate than active participants.

There is no cost to the Authority for COBRA beneficiaries who enroll in community-rated HMOs, including HIP, since these individuals pay their full community rate. However, the City’s costs under the experience-rated GHI/EBCBS coverage are affected by the claims for COBRA-covered individuals.

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI-covered individuals and families is estimated assuming that 15% of employees not eligible for other benefits elect COBRA coverage for 15 months. A lump-sum COBRA cost of \$1,475 was assumed for terminations during fiscal year 2022. This lump-sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

**Active/Inactive Liabilities**

40% of the measured liability of the Active/Inactive population. This is roughly equivalent to assuming that 60% of the Active/Inactive members will terminate membership prior to vesting and not receive OPEB.

**Sensitivity of the Net OPEB Plan Liability to Changes in the Discount Rate**

The following table presents the Authority's proportionate share of the net OPEB Plan liability using the discount rate of 4.09%, as well as what the Authority's proportionate share of the net OPEB Plan liability would be if it were calculated using a discount rate that is 1% lower (3.09%) or 1% higher (5.09%) than the current rate (in thousands):

	<b>Sensitivity Analysis</b>		
	<b>Net OPEB Plan Liability as of June 30, 2022</b>		
	1% Decrease (3.09%)	Current Discount Rate (4.09%)	1% Increase (5.09%)
Total OPEB Plan Liability	\$ 2,039	\$ 1,771	\$ 1,554

**Sensitivity of the Net OPEB Plan Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the total OPEB Plan liability of the Authority, as well as what the Authority's total OPEB Plan liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	<b>Sensitivity Analysis</b>		
	<b>Net OPEB Plan Liability as of June 30, 2022</b>		
	1% Decrease (5.5%)	Healthcare Cost Trend Rates (6.5%)	1% Increase (7.5%)
Total OPEB Plan Liability	\$ 1,482	\$ 1,771	\$ 2,145

**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

***Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB Plan***

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 596	\$ 199
Changes of assumptions or other inputs	36	833
<b>Total</b>	<b>\$ 632</b>	<b>\$ 1,032</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB Plan will be recognized in OPEB expense as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Amount</b>
2022	(69.4)
2023	(69.4)
2024	(69.4)
2025	(68.7)
2026	(40.6)
2027	(39.5)
2028	(52.9)
2029	(52.4)
2030	(7.3)

**NOTE 13 - POLLUTION REMEDIATION OBLIGATIONS**

The System reports pollution remediation obligations (“PROs”) as required by the GASB. The System’s PROs may arise as a result of: (1) federal, state, and local laws and regulations; (2) violations of pollution-related permits or licenses; (3) a determination by the System that there is an imminent endangerment to public health and safety as a result of an existing pollution condition; (4) the System being named in a lawsuit to compel remediation or being identified by a regulator as a party responsible or potentially responsible for remediation; and/or (5) the System’s voluntarily commencement of remediation. As of June 30, 2022 and 2021, the System reported \$51.7 million and \$45.4 million of liabilities for known PROs, respectively.

The System has estimated these amounts based on the current value of outlays expected to be incurred for pollution remediation, which it is currently obligated to perform. Actual future outlays will differ from the estimated amounts if the prices or techniques for remediation measures change or differ from estimates, if and when additional information about existing pollution conditions becomes known to the System in the future and/or if applicable laws or regulations change.



**New York City Water and Sewer System**

**NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2022 and 2021**

Remediation outlays for certain pollution conditions currently known to the System are not included in the reported liabilities because they are not yet reasonably estimable. These include certain locations that the System has been informed have been designated under federal law as Superfund sites to address alleged hazardous substances, pollutants, or contaminants at these sites and for which the System may be named as a potentially responsible party for the remediation because there are the System's facilities operated at these locations.

**NOTE 14 - SUBSEQUENT EVENTS**

The System evaluated its June 30, 2022 combining financial statements for subsequent events through October 13, 2022, the date the consolidated financial statements were issued and noted the following:

On July 19, 2022, the Standby Bond Purchase Agreement between the Authority and Mizuho Bank, Ltd., under which liquidity support is provided for the Authority's Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2014 Series AA, Subseries AA-5 & Subseries AA-6, which was scheduled to expire on August 19, 2022 was extended to August 19, 2025.

On July 19, 2022, the Standby Bond Purchase Agreement between the Authority and Mizuho Bank, Ltd., under which liquidity support is provided for the Authority's Water and Sewer System Revenue Bonds, Adjustable Rate Fiscal 2012 Series A, Subseries A-1 & Subseries A-2, which was scheduled to expire on September 27, 2022, was extended to September 26, 2025.

On August 18, 2022, the Authority drew down \$130 million of Fiscal 2022 Series 8 BAN proceeds. The proceeds were used to fund capital projects of the System.

On September 15, 2022, the Authority drew down \$100 million of Fiscal 2022 Series 8 BAN proceeds. The proceeds were used to fund capital projects of the System.

On September 29, 2022, the Authority drew down \$11 million of Fiscal 2017 Series 1 BAN proceeds. In addition, on September 29, 2022, the Authority received \$32 million of federal grant funds. The grant funds and the BAN proceeds will be used to fund capital projects of the System.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**New York City Water and Sewer System**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF CHANGES FOR TOTAL OPEB PLAN LIABILITY AND RELATED RATIOS  
As of June 30\*, (in thousands):**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Plan Liability</b>						
Service cost	\$ 112	\$ 112	\$ 97	\$ 111	\$ 94	\$ 101
Interest	44	54	53	47	42	43
Differences between expected and actual experience	334	(114)	(43)	572	(106)	(96)
Changes of assumptions	(628)	(34)	33	(336)	35	(222)
Benefits payments	(19)	(19)	(21)	(23)	(20)	(15)
Cadillac tax repeal		-	(18)	-	-	-
<b>Net change in total OPEB Plan Liability</b>	<b>(157)</b>	<b>(1)</b>	<b>102</b>	<b>371</b>	<b>45</b>	<b>(189)</b>
Total OPEB Plan liability - beginning	1,928	1,929	1,828	1,457	1,412	1,601
<b>Total OPEB Plan Liability - ending</b>	<b>\$ 1,771</b>	<b>\$ 1,928</b>	<b>\$ 1,929</b>	<b>\$ 1,828</b>	<b>\$ 1,457</b>	<b>\$ 1,412</b>
 Covered payroll	 \$ 1,156	 \$ 1,209	 \$ 1,187	 \$ 942	 \$ 859	 \$ 1,038
 Total OPEB Plan Liability as a percentage of covered payroll	 153.2%	 159.4%	 162.4%	 193.9%	 169.6%	 135.9%

**Notes to the Schedule:**

*Changes of assumption:* Changes of assumption and other inputs reflect the effects of changes in the discount rate each period.

The following are the discount rates used in each period:

2022	4.09%
2021	2.18%
2020	2.66%
2019	2.79%
2018	2.98%
2017	3.13%

The Authority funds OPEB benefits on a pay-as-you-go basis and contributions are not actuarially determined. Therefore, the required supplementary information related to actuarially determined contributions for the 10 most current fiscal years is not applicable.

\* This data is presented for those years for which information is available.

**New York City Water and Sewer System**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last 10 Fiscal Years\* (in thousands):**

		<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportion of the net pension liability	%	0.005	0.005	0.002	0.002	0.003	0.004	0.005	0.005	0.005	0.005
Authority's proportionate share of the net pension liability	\$	1,014	343	422	393	516	828	1,215	1,012	901	1,154
Authority's covered payroll	\$	1,156	1,209	1,187	942	859	1,038	1,148	1,289	1,181	1,124
Authority's proportionate share of the net pension liability as percentage of its covered employee payroll	%	87.72	28.37	35.55	41.72	60.07	79.77	105.84	78.51	76.29	102.67
Plan fiduciary net position as a percentage of the total pension liability	%	81.3	93.1	76.9	78.8	78.8	74.8	69.6	73.1	75.3	67.2

\*This data is presented for those years for which information is available.

**SCHEDULE OF THE AUTHORITY'S PENSION CONTRIBUTIONS  
Last 10 Fiscal Years (in thousands):**

		<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$	214	201	75	78	111	136	170	161	141	136
Contribution in relation to the actuarially determined contribution	\$	(214)	(201)	(75)	(78)	(111)	(136)	(170)	(161)	(141)	(136)
Contribution deficiency (excess)	\$	-	-	-	-	-	-	-	-	-	-
Authority's covered payroll <sup>1</sup>	\$	1,156	1,209	1,187	942	859	1,038	1,148	1,289	1,181	1,124
Contribution as a percentage of covered payroll	%	18.51	16.63	6.32	8.28	12.92	13.10	14.81	12.49	11.94	12.10

<sup>1</sup>Covered payroll data from the actuarial valuation date with one-year lag.