

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, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committees and Management

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

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 statement of net position (deficit), the related combining statement of revenues, expenses, and changes in net position (deficit), and the combining statement of cash flows as of and for the year ended June 30, 2020, and the related notes to the combining financial statements.

Management's responsibility for the combining financial statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the combining financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of the New York City Municipal Water Finance Authority and the New York City Water Board as of June 30, 2020, and the results of their changes in financial position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Predecessor Auditor's Report*

The 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 as of and for the year ended June 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2019 combining financial statements in their report dated October 15, 2019.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 17, the schedule of changes for total OPEB liability and related ratios on page 70, the schedule of the Authority's proportionate share of the net pension liability on page 71, and the schedule of the Authority's pension contributions on page 71 be presented to supplement the basic combining financial statements. Such information, 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



New York, New York
October 15, 2020

New York City Water and Sewer System
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020 and 2019

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, 2020 and 2019. 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, 2020 and 2019

Financial Analysis and Results of Operations

The following summarizes the activities of the System for the fiscal years 2020, 2019, and 2018, respectively (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Variance</u>	
				<u>2020 vs 2019</u>	<u>2019 vs 2018</u>
REVENUES:					
Operating revenues:					
Water supply and distribution	\$1,421,636	\$1,416,713	\$1,346,045	\$ 4,923	\$ 70,668
Sewer collection and treatment	2,260,401	2,252,574	2,140,214	7,827	112,360
Bad debt expense	(31,481)	852	(18,259)	(32,333)	19,111
Other operating revenues	180,336	149,660	187,308	30,676	(37,648)
Total operating revenues	<u>3,830,892</u>	<u>3,819,799</u>	<u>3,655,308</u>	<u>11,093</u>	<u>164,491</u>
Non-operating revenues:					
Subsidy income	165,570	176,346	175,620	(10,776)	726
Investment income	79,993	91,712	28,809	(11,719)	62,903
Total non-operating revenues	<u>245,563</u>	<u>268,058</u>	<u>204,429</u>	<u>(22,495)</u>	<u>63,629</u>
Total revenues	<u>4,076,455</u>	<u>4,087,857</u>	<u>3,859,737</u>	<u>(11,402)</u>	<u>228,120</u>
EXPENSES:					
Operations and maintenance	1,614,828	1,469,601	1,389,954	145,227	79,647
Other operating expenses	70,994	76,051	84,983	(5,057)	(8,932)
General and administrative	48,550	52,504	55,493	(3,954)	(2,989)
Depreciation and amortization	1,023,186	908,355	1,042,968	114,831	(134,613)
Capital distribution	26,566	110,750	22,789	(84,185)	87,961
Net loss on retirement of capital assets	3,676	2,423	48,609	1,253	(46,186)
(Gain)/loss on defeasance	(10,107)	26,058	14,991	(36,165)	11,067
Interest expense and cost of issuance	1,154,105	1,198,849	1,190,802	(44,745)	8,047
Total expenses	<u>3,931,798</u>	<u>3,844,591</u>	<u>3,850,589</u>	<u>87,207</u>	<u>(5,998)</u>
Net gain (loss) before capital contributions	144,657	243,266	9,148	(98,609)	234,118
CAPITAL CONTRIBUTIONS	<u>48,062</u>	<u>12,448</u>	<u>19,642</u>	<u>35,614</u>	<u>(7,194)</u>
CHANGE IN NET POSITION (DEFICIT)	192,719	255,714	28,790	(62,995)	226,924
NET POSITION - Beginning	<u>1,339,457</u>	<u>1,083,743</u>	<u>1,054,953</u>	<u>255,714</u>	<u>28,790</u>
NET POSITION - Ending	<u>\$1,532,176</u>	<u>\$1,339,457</u>	<u>\$1,083,743</u>	<u>\$ 192,719</u>	<u>\$ 255,714</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

Operating Revenues

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

2020-2019

Operating revenues increased by \$11.1 million, or 0.3% compared to fiscal year 2019. The increase in revenues reflects a combination of a 2.3% rate increase adopted by the Water Board for fiscal year 2020, mostly offset by a 3.1% year over year decline in water consumption by customers billed at metered rates.

2019-2018

Operating revenues increased by \$165 million or 4.5% compared to fiscal year 2018. This increase was partly due to a 2.36% rate increase adopted by the Water Board for fiscal year 2019. It also reflects a one-time credit issued by the Water Board to certain customers, which lowered revenues in fiscal year 2018.

Other Operating Revenues

The following further details other operating revenues for fiscal years 2020, 2019, and 2018, respectively (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Variance</u>	
				<u>2020 vs 2019</u>	<u>2019 vs 2018</u>
Upstate water fees	\$ 85,114	\$ 66,180	\$ 79,688	\$ 18,934	\$ (13,508)
Late payment fees	39,211	38,842	54,020	369	(15,178)
Change in residual interest in sold liens	2,662	(11,752)	(2,034)	14,414	(9,718)
Connection fees and permits	11,809	18,682	19,588	(6,873)	(906)
Service line protection program	41,540	37,708	36,046	3,832	1,662
Total other operating revenues	\$ 180,336	\$ 149,660	\$ 187,308	\$ 30,676	\$ (37,648)

2020-2019

Upstate water fees increased by \$18.9 million. This is due primarily to a 3.8% 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.

Late payment fees remained constant compared to fiscal year 2019. The interest rate charged on delinquent water and sewer payments remained unchanged at 7.0%.

The change in residual interest in sold liens increased by \$14.4 million compared to fiscal year 2019. This is due to fewer collection and enforcement activities being pursued during the COVID-19 pandemic, as well as, the closing of the fiscal year 2019 lien sale occurring after the start of fiscal year 2020, the residual value of the liens remaining in the portfolio was higher at the end of fiscal year 2020 compared to the end of fiscal year 2019.

The amounts received for the service line protection program increased by \$3.8 million. The number of effective policies increased from approximately 274,000 on June 30, 2019 to approximately 278,000 by the end of fiscal year 2020. Also, on January 6, 2020, a combined water and sewer line protection price increase of 16.7% went into effect.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

2019-2018

Upstate water fees declined by \$13.5 million due to lower sales of water charged at both the entitlement and excess rates, in particular the further reduction of excess water revenues from the City of Newburgh.

Late payment fees decreased by \$15.2 million compared to fiscal year 2018 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 \$9.7 million compared to fiscal year 2018. This was due to fewer residual liens from previous lien sales residing with the Lien Trust.

The amounts received for the service line protection program increased by \$1.7 million. The number of effective policies increased from approximately 270,000 on June 30, 2018 to approximately 274,000 by the end of fiscal year 2019.

Non-Operating Revenues

Non-operating revenues are comprised of subsidy income and investment income.

2020-2019

Investment income decreased by \$11.7 million compared to fiscal year 2019. The decrease was due to lower interest rates on invested assets.

2019-2018

Investment income increased by \$63 million compared to fiscal year 2018. The increase was due to \$19.2 million of unrealized gains on both investments and forward purchase agreements in fiscal year 2019, compared to a loss of \$24.4 million in fiscal year 2018, higher interest rates on invested assets and a minimal increase in arbitrage rebate payments, which is recorded as an offset to investment income.

Operating Expenses

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

2020-2019

Total operations and maintenance expense increased by \$145 million or 9.9% compared to fiscal year 2019. This is due primarily to a rental payment of \$128 million and increase in the wastewater operating cost.

Depreciation and amortization expense increased by \$115 million compared to fiscal year 2019. In fiscal year 2020, a total of \$1.3 billion of completed projects were removed from construction in progress into depreciable utility plant asset in service which resulted in the higher depreciation expense in fiscal year 2020.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

2019-2018

Total operations and maintenance expense increased by \$79.6 million or 5.7% compared to fiscal year 2018. This is due primarily to an increase in the wastewater operating cost.

Depreciation and amortization expense decreased by \$135 million compared to fiscal year 2018. In fiscal year 2018, a total of \$3.7 billion of completed projects was removed from construction in progress into depreciable assets utility plant in service which resulted in the higher depreciation expense in fiscal year 2018, and along with asset retirements and adjustments, leveled out in fiscal year 2019.

Non-Operating Expenses

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

2020-2019

Capital distribution decreased by \$84.2 million in fiscal year 2020 compared to fiscal year 2019. Fiscal year 2019 was exceptionally large as the System acquired additional land around the Gowanus Canal area and then granted it to the City.

Interest expense and cost of issuance decreased by \$44.7 million. This decrease was primarily due to the amortization of bond premium, lower interest rate on variable rate bonds compared to fiscal year 2019 and offset by an increase of the cost of issuance on bonds.

Fiscal year 2020 cash defeasance resulted in an accounting gain of \$10.1 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 Systems' combining statement of revenues, expenses and changes in net position (deficit).

2019-2018

Capital distribution increased by \$88.0 million in fiscal year 2019. This was due to the System acquiring more land around the reservoirs and in the Gowanus Canal area and then granting them to the City.

Interest expense and cost of issuance increased by \$8.0 million. This increase was primarily due to the issuance of additional debt.

Fiscal year 2019 cash defeasance resulted in an accounting loss of \$26.1 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 loss was reported in the Systems' combining statement of revenues, expenses and changes in net position (deficit) (see Note 9).

Capital Contributions

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

2020-2019

Capital contributions increased by \$35.6 million in fiscal year 2020, mainly due to a \$30 million note that was forgiven by the Environmental Facilities Corporation ("EFC") as per the note agreement.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

Change in Net Position (Deficit)

2020-2019

The change in net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) decreased by \$63 million in fiscal year 2020 compared to fiscal year 2019.

2019-2018

The change in net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, and capital contributions. The change in net position (deficit) increased by \$227 million in fiscal year 2019.

Ending Net Position (Deficit)

2020-2019

The ending net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$193 million in fiscal year 2020.

2019-2018

The ending net position (deficit) represents the net total of operating revenue and expenses, non-operating revenues and expenses, capital contributions, and beginning balance of net position (deficit). Ending net position (deficit) increased by \$256 million in fiscal year 2019.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

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):

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Variance</u>	
				<u>2020 vs 2019</u>	<u>2019 vs 2018</u>
Assets:					
Current assets	\$ 3,591,107	\$ 2,891,584	\$ 3,274,730	\$ 699,523	\$ (383,146)
Residual interest in sold liens	64,484	61,822	73,574	2,662	(11,752)
Capital assets	31,759,472	30,975,053	30,063,299	784,419	911,754
Total assets	<u>35,415,063</u>	<u>33,928,459</u>	<u>33,411,603</u>	<u>1,486,604</u>	<u>516,856</u>
Deferred outflows of resources:					
Accumulated decrease in fair value of hedging derivative	154,950	107,158	76,115	47,792	31,043
Deferred changes in net pension liability	(263)	(385)	(353)	122	(32)
Unamortized asset retirement obligation	12,452	13,855	15,454	(1,403)	(1,599)
Deferred changes in OPEB liability	489	532	31	(43)	501
Total deferred outflows of resources	<u>167,628</u>	<u>121,160</u>	<u>91,247</u>	<u>46,468</u>	<u>29,913</u>
Total assets and deferred outflows of resources	<u>\$ 35,582,691</u>	<u>\$ 34,049,619</u>	<u>\$ 33,502,850</u>	<u>\$ 1,533,072</u>	<u>\$ 546,769</u>
Liabilities:					
Current liabilities	\$ 929,099	\$ 1,371,692	\$ 1,251,166	\$ (442,593)	\$ 120,526
Long-term liabilities	33,082,440	31,325,449	31,158,544	1,756,991	166,905
Total liabilities	<u>34,011,539</u>	<u>32,697,141</u>	<u>32,409,710</u>	<u>1,314,398</u>	<u>287,431</u>
Deferred inflows of resources:					
Deferred changes in net pension liability	8	34	37	(26)	(3)
Deferred changes in OPEB liability	549	598	349	(49)	249
Unamortized deferred bond refunding costs	38,419	12,389	9,011	26,030	3,378
Total deferred inflows of resources	<u>38,976</u>	<u>13,021</u>	<u>9,397</u>	<u>25,955</u>	<u>3,624</u>
Net position (deficit):					
Net investment in capital assets	481,129	437,786	116,124	43,343	321,662
Restricted for debt service	1,638,121	1,624,802	1,501,529	13,319	123,273
Restricted for operations and maintenance	264,178	260,102	247,304	4,076	12,798
Unrestricted (deficit)	(851,252)	(983,233)	(781,214)	131,981	(202,019)
Total net position (deficit)	<u>1,532,176</u>	<u>1,339,457</u>	<u>1,083,743</u>	<u>192,719</u>	<u>255,714</u>
Total liabilities, deferred inflows of resources, and net position (deficit)	<u>\$ 35,582,691</u>	<u>\$ 34,049,619</u>	<u>\$ 33,502,850</u>	<u>\$ 1,533,072</u>	<u>\$ 546,769</u>

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

Current Assets

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

2020-2019

Current assets increased by \$700 million or 24%. Restricted investments, including restricted cash and cash equivalents, increased by \$469 million primarily in the construction fund. Construction fund balances fluctuate due to the timing of bonds issuances and payments to the City for capital costs. Net receivable increased by \$35 million and receivable from the City increased by \$94 million.

2019-2018

Current assets decreased by \$383 million or 12%. Restricted investments, including restricted cash and cash equivalents, decreased by \$302 million primarily in the construction fund. Construction fund balances fluctuate due to the timing of bonds issuances and payments to the City for capital costs. Net receivable decreased by \$56 million and receivable from the City decreased by \$20 million.

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.

2020-2019

Deferred outflows from hedging increased by \$48 million, or 45%, compared to fiscal year 2019 due to a decline in the fair value of the hedging derivative instrument.

2019-2018

Deferred outflows from hedging increased by \$31 million, or 41%, compared to fiscal year 2018 due to a decline in the fair value of the hedging derivative instrument.

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 of New York, and service credits on customer accounts.

2020-2019

Current liabilities decreased by \$443 million, or 32%, compared to fiscal year 2019. This was primarily due to a decrease of \$128 million payable to the City and a decrease of \$295 million in the current portion of bonds and notes payable.

2019-2018

Current liabilities increased by \$121 million, or 9.6%, compared to fiscal year 2018. This was primarily due to an increase of \$120 million payable to the City, an increase of \$58 million in the current portion of bonds and notes payable, which was offset by a decrease of \$43 million of revenue received in advance and a decrease of \$19 million of service credits on customer accounts.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

Long-Term Liabilities

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

2020-2019

Long-term liabilities increased by \$1.8 billion, or 5.6%, primarily due to the issuance of new debt to fund capital projects offset by the defeasance of debt using current revenues.

2019-2018

Long-term liabilities increased by \$167 million, or 0.5%, primarily due to the issuance of new debt to fund capital projects offset by the defeasance of debt using current revenues.

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 assets on the combining statements of net position (deficit). The cumulative amount of expenses not capitalized as assets as of June 30, 2020 was \$1.6 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.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Variance</u>	
				<u>2020 vs 2019</u>	<u>2019 vs 2018</u>
NONDEPRECIABLE ASSETS:					
Utility construction in progress	\$ 5,242,563	\$ 4,717,989	\$ 3,394,126	\$ 524,574	\$ 1,323,863
DEPRECIABLE ASSETS:					
Utility plant in service:					
Buildings	35,821	35,821	35,767	-	54
Machinery and equipment	5,216,995	4,893,559	4,826,881	323,436	66,678
Vehicles	274,757	263,639	250,359	11,118	13,280
Water supply and distribution and wastewater treatment and sewage collection systems	37,674,403	36,749,341	36,345,548	925,062	403,793
Total utility plant in service	<u>43,201,976</u>	<u>41,942,360</u>	<u>41,458,555</u>	<u>1,259,616</u>	<u>483,805</u>
Less accumulated depreciation for:					
Buildings	30,335	29,602	28,003	733	1,599
Machinery and equipment	2,636,524	2,369,280	2,120,838	267,244	248,442
Vehicles	124,057	112,509	101,819	11,548	10,690
Water supply and distribution and wastewater treatment and sewage collection systems	13,894,152	13,173,905	12,538,722	720,247	635,183
Total accumulated depreciation	<u>16,685,067</u>	<u>15,685,296</u>	<u>14,789,382</u>	<u>999,771</u>	<u>895,914</u>
Total utility plant in service - net	<u>26,516,908</u>	<u>26,257,064</u>	<u>26,669,173</u>	<u>259,844</u>	<u>(412,109)</u>
Total capital assets - net	<u>\$ 31,759,472</u>	<u>\$ 30,975,053</u>	<u>\$ 30,063,299</u>	<u>\$ 784,419</u>	<u>\$ 911,754</u>

2020-2019

Total gross additions to non-depreciable assets utility construction in progress were \$1.8 billion and a total of \$1.3 billion of completed projects were moved from construction in progress into depreciable assets utility plant in service. This resulted in a \$525 million increase in construction in progress, representing a 11% net increase compared to fiscal year 2019. Total capital assets, net of depreciation, increased by \$784 million, a 2.5% increase from fiscal year 2019 (see Note 3).

2019-2018

Total gross additions to non-depreciable assets utility construction in progress were \$1.8 billion and a total of \$497 million of completed projects were moved from construction in progress into depreciable assets utility plant in service. This resulted in a \$1.3 billion increase in construction in progress, representing a 39% net increase compared to fiscal year 2018. Total capital assets, net of depreciation, increased by \$912 million, a 3% increase from fiscal year 2018 (see Note 3).

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

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 Environmental Facilities Corporation ("EFC"). Commercial program notes and BANs are interim financing instruments. In fiscal year 2020 and 2019, the Authority did not issue any commercial paper notes, relying instead on bond and BAN proceeds to reimburse the City for payments made for water and sewer capital projects. The Authority periodically issues long-term debt to retire outstanding commercial paper notes and BANs. The Authority also issues refunding bonds to refinance higher coupon debt and defeases debt using current revenues.

As of June 30, 2020, the total outstanding debt of the System was \$30.9 billion, which comprised of adjustable rate and fixed-rate long-term bonds. The following table summarize debt program activities for the fiscal year ending June 30, 2020 (in thousands):

	Outstanding Principal Balance at June 30, 2019	Issued	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2020
First Resolution Bonds	\$ 1,580,766	\$ -	\$ (81,550)	\$ (184,345)	\$ 1,314,871
Second Resolution Bonds	28,437,542	3,959,301	(400,836)	(2,422,005)	29,574,002
Second Resolution BANs	<u>27,598</u>	<u>467,219</u>	<u>-</u>	<u>(494,816)</u>	<u>-</u>
Total Bonds Payable	<u>\$ 30,045,906</u>	<u>\$ 4,426,520</u>	<u>\$ (482,386)</u>	<u>\$ (3,101,166)</u>	<u>\$ 30,888,873</u>

In fiscal year 2020, the Authority issued \$3.2 billion of water and sewer system revenue bonds to the public, including \$1.5 billion of refunding bonds and \$1.7 billion of new money bonds. Additionally, the Authority issued \$425 million of new money and \$352 million of refunding water and sewer system revenue bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs.

During fiscal year 2020, the Authority issued \$1.9 billion of bonds to refund \$2.3 billion of outstanding bonds. These refundings resulted in an accounting gain of \$31.7 million. The Authority reduced its aggregate debt service for principal and interest by \$693 million and obtained an economic benefit (present value savings) of \$544 million.

During fiscal year 2020, the Authority legally defeased \$350 million of outstanding bonds using current resources. This resulted in an accounting gain of \$11 million and a gross debt service savings of \$352 million.

During fiscal year 2020, \$30 million of Fiscal 2012 Series 1 Bond anticipation note principal was forgiven by EFC in accordance with the terms of the note.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

The following table summarize debt program activities for the fiscal year ending June 30, 2019 (in thousands):

	Outstanding Principal Balance at June 30, 2018	Issued	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2019
First Resolution Bonds	\$ 1,928,706	\$ -	\$ (47,940)	\$ (300,000)	\$ 1,580,766
Second Resolution Bonds	27,870,962	2,859,504	(376,854)	(1,916,070)	28,437,542
Second Resolution BANs	<u>215,734</u>	<u>324,824</u>	<u>-</u>	<u>(512,960)</u>	<u>27,598</u>
Total Bonds Payable	<u>\$ 30,015,402</u>	<u>\$ 3,184,328</u>	<u>\$ (424,794)</u>	<u>\$ (2,729,030)</u>	<u>\$ 30,045,906</u>

In fiscal year 2019, the Authority issued \$2.1 billion of water and sewer system revenue bonds to the public, including \$1.1 billion of refunding bonds and \$985 million of new money bonds. Additionally, the Authority issued \$485 million of new money and \$320 million of refunding water and sewer system revenue bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs.

During fiscal year 2019, the Authority issued \$1.4 billion of bonds to refund \$1.6 billion of outstanding bonds. These refundings resulted in an accounting gain of \$6 million. The Authority reduced its aggregate debt service for principal and interest by \$431 million and obtained an economic benefit (present value savings) of \$326 million.

During fiscal year 2019, the Authority legally defeased \$639 million of outstanding bonds using current resources. This resulted in an accounting loss of \$25 million and a gross debt service savings of \$1.3 billion.

Economic Outlook

The outbreak of the coronavirus disease (COVID-19), referred to herein as "COVID-19," has been 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 and the Mayor of the City of New York declared a state of emergency in the city on March 12, 2020, each of which is still in effect. The City of New York (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 impact of the virus is projected to negatively affect revenues of the System. In addition, after not requesting base rental payments from the System in fiscal years 2017, 2018 and 2019, as a result of the outbreak of COVID-19, the City requested base rental payments of \$128 million and \$137 million in fiscal years 2020 and 2021, respectively, as permitted under its lease with the Water Board (the "Lease"). No assurance can be provided that the COVID-19 pandemic and resulting economic disruption will not negatively impact the System's financial position in the future, including, but not limited to, the City's decision to request additional base rental payments up to the maximum amounts set forth in the Lease.

New York City Water and Sewer System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

June 30, 2020 and 2019

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.

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

June 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City				
	Municipal Water Finance Authority			Eliminations	Total
	Water Board				
(in thousands)					
ASSETS:					
CURRENT ASSETS:					
Restricted cash and cash equivalents	\$ 13,094	\$ 1,778,177	\$ -	\$ 1,791,272	
Restricted investments	264,152	640,096	-	904,248	
Accrued interest and subsidy receivable	3	36,114	-	36,116	
Accounts receivable:					
Billed - less allowance for uncollectable water and sewer receivables of \$435,199	457,646	-	-	457,646	
Unbilled - less allowance for uncollectable water and sewer receivables of \$27,355	308,140	-	-	308,140	
Receivable from The City of New York	93,685	-	-	93,685	
Total current assets	1,136,720	2,454,387	-	3,591,107	
NON-CURRENT ASSETS:					
Utility plant in service - less accumulated depreciation of \$16,685,067	26,516,909	-	-	26,516,909	
Utility plant construction	5,242,563	-	-	5,242,563	
Total capital assets	31,759,472	-	-	31,759,472	
Residual interest in sold liens	64,484	-	-	64,484	
Revenue required to be billed by and received from the Water Board	-	10,997,726	(10,997,726)	-	
Total non-current assets	31,823,956	10,997,726	(10,997,726)	31,823,956	
Total assets	32,960,676	13,452,113	(10,997,726)	35,415,063	
DEFERRED OUTFLOWS OF RESOURCES:					
Accumulated decrease in fair value of hedging derivative	-	154,950	-	154,950	
Deferred changes in net pension liability	-	(263)	-	(263)	
Unamortized asset retirement obligations	12,452	-	-	12,452	
Deferred changes in OPEB liability	-	489	-	489	
Total deferred outflows of resources	12,452	155,176	-	167,628	
Total assets and deferred outflows of resources	\$ 32,973,128	\$ 13,607,289	\$ (10,997,726)	\$ 35,582,691	

See notes to combining financial statements.

(Continued)

New York City Water and Sewer System

COMBINING STATEMENT OF NET POSITION (DEFICIT) - CONTINUED

June 30, 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City Municipal Water Finance			Total
	Water Board	Authority	Eliminations	
	(in thousands)			
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	\$ 4,068	\$ 7,580	\$ -	\$ 11,648
Interest payable	-	51,495	-	51,495
Revenue received in advance	10,477	-	-	10,477
Current portion of bonds and notes payable	-	214,664	-	214,664
Payable to the City of New York	-	567,644	-	567,644
Service credits on customer accounts	73,171	-	-	73,171
Total current liabilities	87,716	841,383	-	929,099
LONG-TERM LIABILITIES:				
Bonds and notes payable	-	32,875,741	-	32,875,741
Pollution remediation obligation	29,068	-	-	29,068
Interest rate swap agreement - net	-	154,950	-	154,950
Revenue requirements payable to the Authority	10,997,726	-	(10,997,726)	-
Net pension liability	-	422	-	422
Net OPEB liability	-	1,929	-	1,929
Other long-term liability	17,760	2,570	-	20,330
Total long-term liabilities	11,044,554	33,035,612	(10,997,726)	33,082,440
Total liabilities	11,132,270	33,876,995	(10,997,726)	34,011,539
DEFERRED INFLOWS OF RESOURCES:				
Unamortized deferred bond refunding costs	-	38,419	-	38,419
Deferred changes in net pension liability	-	8	-	8
Deferred changes in OPEB liability	-	549	-	549
Total deferred inflows of resources	-	38,976	-	38,976
NET POSITION (DEFICIT):				
Net investment in capital assets	31,759,472	(31,278,343)	-	481,129
Restricted for debt service	-	1,638,121	-	1,638,121
Restricted for operations and maintenance	264,178	-	-	264,178
Unrestricted (deficit)	(10,182,792)	9,331,540	-	(851,252)
Total net position (deficit)	21,840,858	(20,308,682)	-	1,532,176
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 32,973,128	\$ 13,607,289	\$ (10,997,726)	\$ 35,582,691

See notes to combining financial statements.

(Concluded)

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

June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
ASSETS:				
CURRENT ASSETS:				
Restricted cash and cash equivalents	\$ 15,664	\$ 1,306,377	\$ -	\$ 1,322,041
Restricted investments	256,702	574,615	-	831,317
Accrued interest and subsidy receivable	2	7,387	-	7,389
Accounts receivable:				
Billed - less allowance for uncollectable water and sewer receivables of \$403,455	381,973	-	-	381,973
Unbilled - less allowance for uncollectable water and sewer receivables of \$27,618	348,864	-	-	348,864
Total current assets	1,003,205	1,888,379	-	2,891,584
NON-CURRENT ASSETS:				
Utility plant in service - less accumulated depreciation of \$15,685,296	26,257,064	-	-	26,257,064
Utility plant construction	4,717,989	-	-	4,717,989
Total capital assets	30,975,053	-	-	30,975,053
Residual interest in sold liens	61,822	-	-	61,822
Revenue required to be billed by and received from the Water Board	-	11,199,913	(11,199,913)	-
Total non-current assets	31,036,875	11,199,913	(11,199,913)	31,036,875
Total assets	32,040,080	13,088,292	(11,199,913)	33,928,459
DEFERRED OUTFLOWS OF RESOURCES:				
Accumulated decrease in fair value of hedging derivative	-	107,158	-	107,158
Deferred changes in net pension liability	-	(385)	-	(385)
Unamortized asset retirement obligations	13,855	-	-	13,855
Deferred changes in OPEB liability	-	532	-	532
Total deferred outflows of resources	13,855	107,305	-	121,160
Total assets and deferred outflows of resources	\$ 32,053,935	\$ 13,195,597	\$ (11,199,913)	\$ 34,049,619

See notes to combining financial statements.

(Continued)

New York City Water and Sewer System

COMBINING STATEMENT OF NET POSITION (DEFICIT) - CONTINUED

June 30, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	New York City			Total
	Water Board	Municipal Water Finance Authority	Eliminations	
	(in thousands)			
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable	\$ 10,758	\$ 6,172	\$ -	\$ 16,930
Interest payable	-	53,514	-	53,514
Revenue received in advance	15,384	-	-	15,384
Current portion of bonds and notes payable	-	509,299	-	509,299
Payable to the City of New York	19,905	695,328	-	715,233
Service credits on customer accounts	61,332	-	-	61,332
Total current liabilities	107,379	1,264,313	-	1,371,692
LONG-TERM LIABILITIES:				
Bonds and notes payable	-	31,162,950	-	31,162,950
Pollution remediation obligation	33,021	-	-	33,021
Interest rate swap agreement - net	-	107,158	-	107,158
Revenue requirements payable to the Authority	11,199,913	-	(11,199,913)	-
Net pension liability	-	393	-	393
Net OPEB liability	-	1,828	-	1,828
Other long-term liability	17,850	2,249	-	20,099
Total long-term liabilities	11,250,784	31,274,578	(11,199,913)	31,325,449
Total liabilities	11,358,163	32,538,891	(11,199,913)	32,697,141
DEFERRED INFLOWS OF RESOURCES:				
Unamortized deferred bond refunding costs	-	12,389	-	12,389
Deferred changes in net pension liability	-	34	-	34
Deferred changes in OPEB liability	-	598	-	598
Total deferred inflows of resources	-	13,021	-	13,021
NET POSITION (DEFICIT):				
Net investment in capital assets	30,975,053	(30,537,267)	-	437,786
Restricted for debt service	-	1,624,802	-	1,624,802
Restricted for operations and maintenance	260,102	-	-	260,102
Unrestricted (deficit)	(10,539,383)	9,556,150	-	(983,233)
Total net position (deficit)	20,695,772	(19,356,315)	-	1,339,457
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 32,053,935	\$ 13,195,597	\$ (11,199,913)	\$ 34,049,619

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, 2020

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
OPERATING REVENUES:			
Water supply and distribution	\$ 1,421,636	\$ -	\$ 1,421,636
Sewer collection and treatment	2,260,401	-	2,260,401
Bad debt expense	(31,481)	-	(31,481)
Other operating revenues	180,336	-	180,336
Total operating revenues	3,830,892	-	3,830,892
OPERATING EXPENSES:			
Operations and maintenance	1,614,828	-	1,614,828
General and administrative	1,069	47,481	48,550
Other operating expenses	70,994	-	70,994
Depreciation and amortization expense	1,023,186	-	1,023,186
Total operating expenses	2,710,077	47,481	2,757,558
OPERATING INCOME (LOSS)	1,120,815	(47,481)	1,073,334
NON-OPERATING REVENUES (EXPENSES):			
Interest expense	-	(1,128,023)	(1,128,023)
Gain on defeasance	-	10,107	10,107
Cost of issuance	-	(26,082)	(26,082)
Net loss on retirement and impairment of capital assets	(3,676)	-	(3,676)
Subsidy income	-	165,570	165,570
Capital distributions	(26,566)	-	(26,566)
Investment income	6,451	73,542	79,993
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,097,024	(952,367)	144,657
Capital contributions	48,062	-	48,062
CHANGE IN NET POSITION (DEFICIT)	1,145,086	(952,367)	192,719
NET POSITION (DEFICIT) - Beginning of year	20,695,772	(19,356,315)	1,339,457
NET POSITION (DEFICIT) - End of year	\$ 21,840,858	\$ (20,308,682)	\$ 1,532,176

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, 2019

	<u>New York City</u>		<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	
	(in thousands)		
OPERATING REVENUES:			
Water supply and distribution	\$ 1,416,713	\$ -	\$ 1,416,713
Sewer collection and treatment	2,252,574	-	2,252,574
Bad debt expense	852	-	852
Other operating revenues	149,660	-	149,660
Total operating revenues	3,819,799	-	3,819,799
OPERATING EXPENSES:			
Operations and maintenance	1,469,601	-	1,469,601
General and administrative	4,580	47,924	52,504
Other operating expenses	76,051	-	76,051
Depreciation and amortization expense	908,355	-	908,355
Total operating expenses	2,458,587	47,924	2,506,511
OPERATING INCOME (LOSS)	1,361,212	(47,924)	1,313,288
NON-OPERATING REVENUES (EXPENSES):			
Interest expense	-	(1,180,801)	(1,180,801)
Loss on defeasance	-	(26,058)	(26,058)
Cost of issuance	-	(18,048)	(18,048)
Net loss on retirement and impairment of capital assets	(2,423)	-	(2,423)
Subsidy income	-	176,346	176,346
Capital distributions	(110,750)	-	(110,750)
Investment income	9,849	81,863	91,712
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,257,888	(1,014,622)	243,266
Capital contributions	12,448	-	12,448
CHANGE IN NET POSITION (DEFICIT)	1,270,336	(1,014,622)	255,714
NET POSITION (DEFICIT) - Beginning of year	19,425,436	(18,341,693)	1,083,743
NET POSITION (DEFICIT) - End of year	\$ 20,695,772	\$ (19,356,315)	\$ 1,339,457

See notes to combining financial statements.

New York City Water and Sewer System
COMBINING STATEMENT OF CASH FLOWS
For the year ended June 30, 2020

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,799,880	\$ -	\$ 3,799,880
Payments for operations and maintenance	(1,777,701)	-	(1,777,701)
Payments for administration	(1,160)	(47,581)	(48,741)
Net cash provided by (used in) operating activities	2,021,019	(47,581)	1,973,438
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	5,180,518	5,180,518
Receipts from contribution made by other organization	82	-	82
Acquisition and construction of capital assets	-	(1,978,169)	(1,978,169)
Payments by the Water Board to the Authority	(2,022,671)	2,022,671	-
Repayments of bonds, notes and other borrowings	-	(3,575,196)	(3,575,196)
Interest paid on bonds, notes and other borrowings	-	(1,140,609)	(1,140,609)
Net cash (used in) provided by capital and related financing activities	(2,022,589)	509,215	(1,513,374)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales and maturities of investments	432,716	60,033	492,749
Purchases of investments	(442,654)	(109,564)	(522,218)
Interest on investments	8,938	59,697	68,635
Net cash (used in) provided by investing activities	(1,000)	10,166	9,166
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,570)	471,800	469,230
CASH AND CASH EQUIVALENTS - Beginning of year	15,664	1,306,377	1,322,041
CASH AND CASH EQUIVALENTS - End of year	\$ 13,094	\$ 1,778,177	\$ 1,791,271

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, 2020

	New York City		Total
	Water Board	Municipal Water Finance Authority	
	(in thousands)		
RECONCILIATION OF OPERATING INCOME / (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,120,815	\$ (47,481)	\$ 1,073,334
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	1,329	-	1,329
Depreciation	1,021,856	-	1,021,856
Other operating expenses			
paid for with bond proceeds	25,935	-	25,935
Pollution remediation expense	5,998	-	5,998
Changes in assets and liabilities:			
Pollution remediation liability	(3,954)	-	(3,954)
Receivables - net	(34,948)	-	(34,948)
Receivable from the City	(113,590)	-	(113,590)
Residual interest in sold liens	(2,662)	-	(2,662)
Accounts payable	(6,690)	(100)	(6,790)
Revenues received in advance	(4,907)	-	(4,907)
Refunds payable	11,839	-	11,839
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 2,021,020	\$ (47,581)	\$ 1,973,439

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 \$141,590 at June 30, 2020.

Capital expenditures in the amount of \$567,644 had been incurred but not paid at June 30, 2020.

The Water Board received federal, state, and other capital contributions of \$47,981 in fiscal year 2020.

See notes to combining financial statements.

(Concluded)

New York City Water and Sewer System
COMBINING STATEMENT OF CASH FLOWS - CONTINUED
For the year ended June 30, 2019

	<u>New York City</u>		<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 3,824,799	\$ -	\$ 3,824,799
Payments for operations and maintenance	(1,462,395)	-	(1,462,395)
Payments for administration	(1,027)	(47,865)	(48,892)
Net cash provided by (used in) operating activities	2,361,377	(47,865)	2,313,512
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuing bonds, notes and other borrowings - net of issuance costs	-	3,463,013	3,463,013
Receipts from contribution made by other organization	292	-	292
Acquisition and construction of capital assets	-	(1,867,102)	(1,867,102)
Payments by the Water Board to the Authority	(2,355,459)	2,355,459	-
Repayments of bonds, notes and other borrowings	-	(3,193,878)	(3,193,878)
Interest paid on bonds, notes and other borrowings	-	(1,116,389)	(1,116,389)
Net cash provided by (used in) capital and related financing activities	(2,355,167)	(358,897)	(2,714,064)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales and maturities of investments	287,087	404,270	691,357
Purchases of investments	(293,999)	(26,945)	(320,944)
Interest on investments	7,359	70,012	77,371
Net cash provided by (used in) investing activities	447	447,337	447,784
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,657	40,575	47,232
CASH AND CASH EQUIVALENTS - Beginning of year	9,007	1,265,802	1,274,809
CASH AND CASH EQUIVALENTS - End of year	\$ 15,664	\$ 1,306,377	\$ 1,322,041

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, 2019

	<u>New York City</u>		<u>Total</u>
	<u>Water Board</u>	<u>Municipal Water Finance Authority</u>	
		(in thousands)	
RECONCILIATION OF OPERATING INCOME / (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,361,212	\$ (47,924)	\$ 1,313,288
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Amortization	1,446	-	1,446
Depreciation	906,909	-	906,909
Other operating expenses paid for with bond proceeds	38,969	-	38,969
Pollution remediation expense	8,712	-	8,712
Changes in assets and liabilities:			
Pollution remediation liability	(4,539)	-	(4,539)
Receivables - net	55,406	-	55,406
Receivable from the City	40,115	-	40,115
Residual interest in sold liens	11,752	-	11,752
Accounts payable	3,553	59	3,612
Revenues received in advance	(43,153)	-	(43,153)
Refunds payable	(19,005)	-	(19,005)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,361,377</u>	<u>\$ (47,865)</u>	<u>\$ 2,313,512</u>

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 \$108,682 at June 30, 2019.

Capital expenditures in the amount of \$695,328 had been incurred but not paid at June 30, 2019.

The Water Board received federal, state, and other capital contributions of \$12,156 in fiscal year 2019.

See notes to combining financial statements.

(Concluded)

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 (the "Agreement") 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.

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 improvement 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, 2020 and 2019

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 statements of cash flows and combining statements 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.

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 statements of net position (deficit). The amortized bond premiums and discounts are an off-set to interest expense on the combining statements 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 \$35,000 or more and a useful life of five 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	5-35
Vehicles	10

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Maintenance and repairs of property are recorded as to 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 shown as other operating expenses in the System's combining statements of revenues, expenses and changes in net position (deficit).

Contributed Capital

The System received federal, state and other capital contributions of \$48 million and \$12 million in fiscal years 2020 and 2019, respectively. These amounts are reported in the System's combining statements of revenues, expenses and changes in net position (deficit) below net income (loss) before capital contributions. In addition, the System received \$82 thousand and \$292 thousand in fiscal years 2020 and 2019, 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 gain (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, 2020 and 2019, the System reported credits of \$20.5 million and \$20.1 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 years 2020 and 2019, the System made rental payments of \$128 million and \$0, respectively.

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 is not included in accounts receivable.

Unamortized Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting gains or losses incurred in bond refundings. It is reported as deferred outflows of resources or deferred inflows of resources and is 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 of interest expense on the combining statements 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 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, 2020 and 2019

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 inflow of resources or deferred outflow of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflow of resources or deferred outflow 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 outflow of resources and deferred inflow of resources related to the pension since the prior measurement date is recognized in 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 inflow of resources or deferred outflow 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 a deferred outflow of resources or a deferred inflow 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 January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (“GASB 84”). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2019. However, the System adopted this pronouncement in the current year. The adoption of GASB 84 did not have an impact on the System’s combining financial statements, as the System does not enter into fiduciary activities.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

- 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 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 inflows 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 June 15, 2021. The System has not completed the process of evaluating GASB 87, but it does not expect it to have a significant impact on its combining financial statements.
- In August 2018, GASB issued Statement No. 90, *Majority Equity Interests* (“GASB 90”). GASB 90 clarifies the accounting and financial reporting requirements for a state and local government’s majority equity interest in an organization that remains legally separate after acquisition. The requirements of GASB 90 are effective for fiscal years beginning after December 15, 2019. However, the System adopted this pronouncement in the current year. The adoption of GASB 90 did not have an impact on the System’s combining financial statements, as the System has not made such acquisitions.
- 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, 2021. The System has not completed the process of evaluating GASB 92 but it does not expect it to have an impact on the System’s combining financial statements.
- In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* (“GASB 93”). GASB 93 addressed 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 is 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. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of GASB 93 are effective for reporting periods beginning after June 15, 2021. The System has not completed the process of evaluating GASB 93, It is currently unclear what the impact, if any, of such a transition could be on the Authority and its Interest-Rate Exchange Agreements. The Authority is monitoring all developments related to the potential LIBOR discontinuation in order to understand how it may affect the System’s combining financial statements going forward.
- 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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

- 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.
- 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 (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 as it does not enter into SBITAs.
- 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 System has not completed the process of evaluating GASB 97 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, 2020 and 2019

NOTE 3 - UTILITY PLANT

The following is a summary of utility plant activity for the fiscal years ended June 30, 2020 and 2019, respectively (in thousands):

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
NONDEPRECIABLE ASSETS:							
Utility construction in progress	\$ 3,394,126	\$1,821,086	\$497,223	\$ 4,717,989	\$1,809,951	\$1,285,377	\$ 5,242,563
DEPRECIABLE ASSETS:							
Utility plant in service:							
Buildings	35,767	54	-	35,821	-	-	35,821
Machinery and equipment	4,826,881	70,318	3,640	4,893,559	330,110	6,674	5,216,995
Vehicles	250,359	13,896	616	263,639	11,137	19	274,757
Water supply and distribution and wastewater treatment and sewage collection systems	36,345,548	412,955	9,162	36,749,341	944,130	19,068	37,674,403
Total utility plant in service	41,458,555	497,223	13,418	41,942,360	1,285,377	25,761	43,201,976
Less accumulated depreciation for:							
Buildings	28,003	1,599	-	29,602	733	-	30,335
Machinery and equipment	2,120,838	251,852	3,410	2,369,280	272,481	5,237	2,636,524
Vehicles	101,819	11,241	551	112,509	11,564	17	124,056
Water supply and distribution and wastewater treatment and sewage collection systems	12,538,722	642,217	7,034	13,173,905	737,078	16,831	13,894,152
Total accumulated depreciation	14,789,382	906,909	10,995	15,685,296	1,021,856	22,085	16,685,067
Total utility plant in service - net	26,669,173	(409,686)	2,423	26,257,064	263,521	3,676	26,516,909
Total capital assets - net	\$30,063,299	\$1,411,400	\$499,646	\$30,975,053	\$2,073,472	\$1,289,053	\$31,759,472

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 Authority's bond 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, 2020 and 2019, cash was comprised of bank deposits and there was no difference between the carrying amounts and bank balances.

At June 30, 2020 and 2019, the cash deposit balances were \$176 million and \$207 million, respectively. Of the June 30, 2020 and 2019 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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Restricted cash and cash equivalents were comprised of the following at June 30, 2020 and 2019, respectively (in thousands):

	<u>2020</u>	<u>2019</u>
Restricted cash and cash equivalents:		
Cash	\$ 175,603	\$ 207,256
Cash equivalents	<u>1,615,669</u>	<u>1,114,785</u>
Total restricted cash and cash equivalents	<u>\$ 1,791,272</u>	<u>\$ 1,322,041</u>

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 government's name. As of June 30, 2020 and 2019, the System had \$176 million and \$207 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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The System had the following restricted investments at June 30, 2020 and 2019 (in thousands):

Restricted Investments	2020			2019		
	Municipal Water		Total	Municipal Water		Total
	Water Board	Finance Authority		Water Board	Finance Authority	
U.S. Agencies securities	\$ -	\$ 172,229	\$ 172,229	\$ -	\$ 742,221	\$ 742,221
U.S. Treasury securities	264,152	763,583	1,027,735	256,702	319,264	575,966
New York State instrumentalities	-	56,069	56,069	-	52,369	52,369
Money Market funds	23	1,130,758	1,130,781	3,400	444,418	447,818
Guaranteed Investment Contracts	-	99,754	99,754	-	99,070	99,070
Forward Purchase Agreements	-	33,349	33,349	-	28,658	28,658
Total investments including cash equivalents	264,175	2,255,742	2,519,917	260,102	1,686,000	1,946,102
Less amounts reported as cash equivalents	(23)	(1,615,646)	(1,615,669)	(3,400)	(1,111,385)	(1,114,785)
Total Restricted Investments	\$ 264,152	\$ 640,096	\$ 904,248	\$ 256,702	\$ 574,615	\$ 831,317

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, 2020 and 2019 (in thousands):

- U.S. Agencies securities of \$172 million and \$742 million, respectively, are valued using a matrix pricing model (Level 2 inputs).
- U.S. Treasury securities of \$1 billion and \$576 million, respectively, are valued using a matrix pricing model (Level 2 inputs).
- New York State Instrumentalities of \$56 million and \$52.4 million, respectively, are valued using a matrix pricing model (Level 2 inputs).
- Money Market Funds of \$1.1 billion and \$448 million, respectively, are valued using a matrix pricing model (Level 2 inputs).
- Guaranteed Investment Contracts (“GIC”) of \$99.8 million and \$99.1 million, respectively, are valued using the market approach, with observable inputs and using a matrix pricing technique (Level 2 inputs).
- Forward Purchase Agreements of \$33.3 million and \$28.7 million, respectively, are valued using the market approach, with observable inputs and using a matrix pricing technique (Level 2 inputs).
- Interest Rate Derivatives of (\$155) million and (\$107) million, respectively, are valued using the income approach (Level 2 inputs).

Credit Risk

Both the Water Board and the Authority have Board 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

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

at June 30, 2020, and 2019 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, Resolution Funding 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 Authority's investment policy limits the amount the Authority may invest in any particular issuer. As of June 30, 2020, the Authority had 41% invested in Federally Guaranteed Securities, 7% in Agency Securities, 2% in State Guaranteed, 5% in Guaranteed Investment Contract, and 45% of First American Government Obligation Fund.

Segmented time distribution on investments and cash equivalents as of June 30, 2020 (in thousands):

<u>Maturity Date</u>	<u>Fair Value Amount</u>
Under 6 months	\$ 1,965,192
Over 6 months to 1 year	123,114
Over 1 year to 3 years	294,876
Over 1 year to 3 years (GIC & FPA Adj.) ¹	13,707
Over 3 years and beyond	89,669
Over 3 years and beyond (GIC and Forward Purchase Agreement adjustments) ¹	33,359
Total	<u>\$ 2,519,917</u>

¹ Includes the fair value of \$33,349 related to Forward Purchase Agreements and \$13,717 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 \$99.8 million and \$99.1 million at June 30, 2020 and 2019, respectively, were not registered in the System's name. The types and amounts of investments are listed in the table on page 36.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - DERIVATIVE INSTRUMENTS

As of June 30, 2020, the Authority had the following (in thousands):

<u>Type</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>	<u>Counterparty Credit Rating (Moody's/S&P/Fitch)</u>
Hedging Derivatives						
Synthetic fixed rate	\$ 240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	\$ (92,970)	Aa2/AA-/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(61,980)	Aa2/A+/AA-
Totals	<u>\$ 401,000</u>				<u>\$ (154,950)</u>	

As of June 30, 2019, the Authority had the following (in thousands):

<u>Type</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>	<u>Counterparty Credit Rating (Moody's/S&P/Fitch)</u>
Hedging Derivatives						
Synthetic fixed rate	\$ 240,600	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	\$ (64,295)	Aa2/AA-/NR
Synthetic fixed rate	160,400	10/24/07	6/15/36	Pay 3.439% receive 67% of 1-month LIBOR	(42,863)	Aa3/A+/AA-
Totals	<u>\$ 401,000</u>				<u>\$ (107,158)</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

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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 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.

Potential Discontinuation of LIBOR Risk

The United Kingdom's Financial Conduct Authority has announced that it will no longer require LIBOR panel banks to provide quotes to set the LIBOR benchmark as of the end of 2021. The Authority's Interest Rate Exchange Agreements are scheduled to still be in effect at such time. Following this date, it is unclear whether banks will continue to provide quotes voluntarily, or if LIBOR will continue to be deemed a viable index by market participants.

In the United States, the Alternative Reference Rates Committee (ARRC) has developed the Secured Overnight Financing Rate (SOFR) as an alternative risk-free rate, and subsequently identified SOFR as a possible replacement rate for LIBOR. SOFR is a broad measure of the cost of borrowing U.S. Treasury securities overnight. ARRC and market participants are currently in the process of identifying methodology for which LIBOR-based instruments may be transitioned into using SOFR, in the event LIBOR is no longer published or utilized.

It is currently unclear what the impact, if any, of such a transition could be on the Authority and its Interest Rate Exchange Agreements. The Authority is monitoring all developments related to the potential LIBOR discontinuation in order to understand how it may be affected going forward.

Financial Statements Effect

The fair value of hedging derivatives at June 30, 2020 and 2019 was a negative \$155 million and negative \$107 million, respectively. The Authority does not currently own investment derivatives.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

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NOTE 6 - LEASE AGREEMENT

The Water Board is a party to a long-term lease (the "Lease") with the City, which transfers the water and sewer related property to the Water Board for the term of the Lease. The Lease term commenced on July 1, 1985, and continues until the later of the fortieth anniversary of the commencement of the Lease 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 Lease 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 leased property, which includes overhead costs incurred by the City that are attributable to the leased 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 leased 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 fiscal year or (b) 15% of principal and interest payable on the bonds of the Authority to be paid within such fiscal year. Rental payments to the City totaled \$128 million and \$0 as of June 30, 2020 and 2019, respectively.

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

	2020	2019
Water supply, treatment, transmission and distribution	\$ 539,908	\$ 516,977
Sewer collection and treatment systems	662,437	655,052
The City agency support cost	52,772	54,659
Fringe benefits	242,053	229,976
Judgments and claims	2,836	12,937
Reversal of prior year payables	(13,178)	-
Operation and maintenance	1,486,828	1,469,601
Rental payments to the City	128,000	-
Total operations and maintenance expenses	\$ 1,614,828	\$ 1,469,601

NOTE 7 - PAYABLE TO AND RECEIVABLE FROM THE CITY

As of June 30, 2020 and 2019, 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 \$568 million and \$695 million as of June 30, 2020 and 2019, respectively, net of the amount of state or federal and other capital grants recognized by the City.

As of June 30, 2020, the Water Board had a receivable from the City of \$94 million and on June 30, 2019, the Water Board had a payable to the City of \$20 million. The 2020 receivable from the City is a result of the difference between budget estimates and actual expenses. The 2019 payable to the City of \$20 million is a result of an under payment for operations and maintenance expense.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 8 - OTHER OPERATING EXPENSES

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

	<u>2020</u>	<u>2019</u>
Pollution remediation	\$ 2,045	\$ 4,173
Payments for watershed improvements	24,032	34,442
Asset retirement obligation	(16)	(48)
Program expense	<u>44,933</u>	<u>37,484</u>
Total other operating expenses	<u>\$ 70,994</u>	<u>\$ 76,051</u>

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 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 2020 and 2019, the System incurred program expenses of \$45 million and \$37.5 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 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 and interest-subsidized bonds issued to the New York State Environmental Facilities Corporation. 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 2020 and 2019, the Authority exclusively relied on proceeds from BANs and long-term bond issuances to reimburse the

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019, none was outstanding. As of June 30, 2020 and 2019, there was \$0 and \$27.6 million of BANs outstanding, respectively. As of June 30, 2020 and 2019, the BANs principal balance of \$130 million and \$132 million, respectively, was available for future draw down.

As of June 30, 2020 and 2019, interest rates on the Authority's outstanding First and Second Resolution bonds ranged from a low of 1.03% and 0.90%, respectively, on a direct borrowing from the EFC, to a high of 6.28% and 6.49%, respectively, on certain outstanding Build America Bonds ("BABs") prior to interest subsidies from the federal government.

Changes in Long-Term Liabilities

In fiscal years 2020 and 2019, the long-term debt was as follows (in thousands):

Bonds/BANs Payable	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Due Within One Year
First resolution bonds	\$ 1,580,766	\$ -	\$ (265,895)	\$ 1,314,871	\$ -
Second resolution bonds (non EFC)	21,849,449	3,182,875	(2,022,410)	23,009,914	-
Bonds from direct borrowings (EFC)	6,088,093	776,426	(800,431)	6,064,088	214,664
Notes from direct borrowings (BANs)	27,598	467,219	(494,817)	-	-
Bonds from direct placement (RBC)	500,000	-	-	500,000	-
Total before premium and discounts	30,045,906	4,426,520	(3,583,552)	30,888,873	214,664
Premium/(discounts) - net	1,626,343	780,220	(205,031)	2,201,532	-
Total debt	\$ 31,672,249	\$ 5,206,740	\$ (3,788,583)	\$ 33,090,405	\$ 214,664

Bonds/BANs Payable	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Due Within One Year
First resolution bonds	\$ 1,928,706	\$ -	\$ (347,940)	\$ 1,580,766	\$ 81,550
Second resolution bonds (non EFC)	21,917,804	1,554,645	(1,623,000)	21,849,449	91,635
Bonds from direct borrowings (EFC)	5,953,158	804,859	(669,924)	6,088,093	308,516
Notes from direct borrowings (BANs)	215,734	324,824	(512,960)	27,598	27,598
Bonds from direct placement (RBC)	-	500,000	-	500,000	-
Total before premium and discounts	30,015,402	3,184,328	(3,153,824)	30,045,906	509,299
Premium/(discounts) - net	1,459,530	296,799	(129,986)	1,626,343	-
Total debt	\$ 31,474,932	\$ 3,481,127	\$ (3,283,810)	\$ 31,672,249	\$ 509,299

Debt Program Administration

In fiscal year 2020, the Authority issued \$1.7 billion of new money bonds to the public and issued an additional \$425 million of new money bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs.

During fiscal year 2020, as further detailed in the bullets below, the Authority issued \$1.9 billion of bonds to refund \$2.3 billion of outstanding bonds. These refunding transactions resulted in a cumulative accounting gain of \$31.7 million. The Authority reduced its aggregate debt service for principal and interest by \$693 million and obtained an economic benefit (present value savings) of \$544 million.

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NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In fiscal year 2020, the Authority drew down \$467 million of BANs proceeds.

- On July 2, 2019, the Authority issued \$460 million of fixed rate Second Resolution bonds, Fiscal 2020 Series AA. The bonds refunded the following fixed rate Second Resolution bonds: \$142 million of Fiscal 2009 Series EE, \$165 million of Fiscal 2009 Series FF, \$109 million of Fiscal 2009 Series GG and \$136 million of Fiscal 2010 Series BB. The Authority reduced its overall debt service by \$225 million and obtained an economic benefit of \$173 million.
- On October 8, 2019, the Authority issued the following fixed rate Second Resolution bonds to EFC: \$239 million of Fiscal 2020 Series 2 and \$42.3 million of Fiscal 2020 Series 3. Proceeds of the bonds were used to refund \$289 million of Fiscal 2009 Series 1 and \$42.3 million of Fiscal 2009 Series 2, and to retire \$179 million of Fiscal 2020 Series 1 BANs. The Authority reduced its overall debt service by \$79.5 million and obtained an economic benefit of \$67.6 million.
- On December 12, 2019, the Authority issued \$261 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2020 Series CC-2. The bonds refunded \$135 million of the First Resolution Fiscal 2008 Series B-3 variable rate demand bonds, \$50.0 million of Second Resolution Fiscal 2010 Series GG, \$50.0 million of Second Resolution Fiscal 2011 Series AA, \$40.0 million of Second Resolution Fiscal 2015 Series FF, and \$21.8 million of Second Resolution Fiscal 2016 Series BB-2. The Authority reduced its overall debt service by \$48 million and obtained an economic benefit of \$39.6 million.
- On February 13, 2020, the Authority issued \$141 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2020 Series DD-3. The bonds proceeds were applied to advance refund \$115 million of 2010 GG and \$50 million of 2011 AA outstanding Build American Bonds. The Authority reduced its overall debt service by \$41.4 million and obtained an economic benefit of \$29.3 million.
- On March 18, 2020, NYW issued \$399 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2020 Series EE. The bond proceeds refunded the following Second Resolution fixed rate bonds: \$125 million of Fiscal 2010 Series EE, \$101 million of Fiscal 2010 Series FF, \$65.2 million of Fiscal 2010 Series GG, \$50 million of Fiscal 2011 Series AA, and \$169 million of Fiscal 2011 BB. The Authority reduced its overall debt service by \$198 million and obtained an economic benefit of \$162 million.
- On April 8, 2020, the Authority issued the following fixed rate Second Resolution bonds to EFC: \$52.1 million of Fiscal 2020 Series 5-C1 and \$18.6 million of Fiscal 2020 Series 6. Proceeds of the bonds were used to refund \$64 million of Fiscal 2010 Series 2 and \$21.1 million of Fiscal 2010 Series 3 and to retire \$286 million of Fiscal 2020 Series 1 BANs. The Authority reduced its overall debt service by \$9.2 million and obtained an economic benefit of \$8.7 million.
- On June 10, 2020, the Authority issued \$269 million of tax-exempt fixed rate Second Resolution bonds, Fiscal 2020 Series FF. The bonds were used to refund the following Second Resolution fixed rate bonds: \$112 million of Fiscal 2010 Series FF, \$22.2 million of Fiscal 2011 Series BB, and \$100 million each of 2010 DD and 2011 AA outstanding Build American Bonds. The Authority reduced its overall debt service by \$91.3 million and obtained an economic benefit of \$74.5 million.

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NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

In fiscal year 2019, the Authority issued \$985 million of new money bonds to the public or through private placements and issued an additional \$485 million of new money bonds to EFC. The Authority used new money bond proceeds to finance capital improvements to the System, to provide long-term financing of BANs that previously financed capital improvements to the System, and to pay for bond issuance costs.

During fiscal year 2019, as further detailed in the bullets below, the Authority issued \$1.4 billion of bonds to refund \$1.6 billion of outstanding bonds. These refunding transactions resulted in a cumulative accounting gain of \$6.0 million. The Authority reduced its aggregate debt service for principal and interest by \$431 million and obtained an economic benefit (present value savings) of \$326 million.

In 2019, the Authority drew down \$325 million of BANs proceeds.

During fiscal year 2020, the Authority legally defeased \$25.0 million of Fiscal 1997 A bonds, \$24.3 million accreted value of Fiscal 2001 D bonds, \$2.0 million of Fiscal 2010 FF bonds, \$27.1 million of Fiscal 2011 GG bonds, \$9.2 million of Fiscal 2012 EE bonds, \$20.0 million of Fiscal 2012 FF bonds, \$33.9 million of Fiscal 2014 DD bonds, \$7.7 million of Fiscal 2016 CC bonds, \$9.1 million of Fiscal 2016 A bonds, \$27.6 million of Fiscal 2017 A bonds, \$6.0 million of Fiscal 2017 E bonds, \$33.8 million of Fiscal 2018 A bonds, \$30.3 million of Fiscal 2018 DD, \$55.8 million of Fiscal 2018 FF bonds, \$10.7 million of Fiscal 2020 AA bonds, \$4.7 million of Fiscal 2019 B bonds, and \$6.7 million of Fiscal 2020 CC bonds using current revenue by depositing \$350 million into defeasance escrows. The defeasance transaction resulted in an accounting gain of \$11 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 \$352 million.

During fiscal year 2019, the Authority legally defeased \$94.8 million of Fiscal 2010 Series FF bonds, \$70.8 million of Fiscal 2011 Series GG bonds, \$2.8 million of Fiscal 2012 Series FF bonds, \$303 million of Fiscal 2011 Series EE bonds, \$115 million of Fiscal 2012 Series BB bonds and \$52.6 million of Fiscal 2012 Series CC bonds using current revenue by depositing \$675 million into defeasance escrows. The defeasance transactions resulted in an accounting loss of \$26.1 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 \$1.3 billion.

The Authority defeased 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, 2020 and 2019, \$1.7 billion and \$1.4 billion, of the Authority's defeased bonds, respectively, were still outstanding.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Index Rate Bonds

As of June 30, 2020 and 2019, the Authority had outstanding \$500 million of index rate bonds, which were purchased by a bank through direct placement. The index rate bonds pay interest based on a specified index. The terms of the index rate bonds also 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.

Variable Rate Demand Bonds

As of June 30, 2020 and 2019, the Authority had \$4.5 billion and \$4.6 billion of variable 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 2020 and 2019, the VRDBs' interest rates averaged 1.4% and 1.5%, 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 ending June 30, 2020 and 2019. 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 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.

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June 30, 2020 and 2019

The Authority had the following adjustable rate demand bonds at June 30, 2020:

Series	Outstanding Principal Amount	Bank	Expiration Date
2014 AA-4	\$ 100,000,000	Bank of Montreal	08/11/20
2007 CC-2	50,000,000	Bank of Montreal	10/05/20
2017 BB-2	50,000,000	Bank of Montreal	10/05/20
2006 AA-1A	100,000,000	State Street Bank and Trust Company	10/07/20
2006 AA-1B	100,000,000	State Street Bank and Trust Company	10/07/20
2008 B-1A	100,000,000	Sumitomo Mitsui Banking Corporation	03/03/21
2012 B-1	100,000,000	US Bank, N.A.	03/06/21
2012 B-2	100,000,000	State Street Bank and Trust Company	03/06/21
2012 B-3	75,000,000	State Street Bank and Trust Company	03/06/21
2012 B-4	50,000,000	State Street Bank and Trust Company	03/06/21
2009 BB-1	100,435,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2009 BB-2	100,435,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2011 FF-2	100,000,000	Landesbank Hessen-Thüringen Girozentrale	06/15/21
2015 BB-1	100,000,000	Bank of America, N.A.	07/09/21
2019 BB	100,000,000	Industrial and Commercial Bank of China Limited	09/10/21
2008 BB-1	100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2013 AA-2	150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2013 AA-1	50,000,000	PNC Bank, N.A.	10/02/21
2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2003 F-2	101,655,000	Citibank, N.A.	10/26/21
2016 AA-2	100,000,000	PNC Bank, N.A.	10/26/21
2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/21
2001 F-1	100,000,000	Mizuho Bank, Ltd.	06/10/22
2015 BB-2	100,000,000	Mizuho Bank, Ltd.	06/14/22
2003 F-1-A	50,000,000	Barclays Bank PLC	06/17/22
2015 BB-4	100,000,000	Barclays Bank PLC	06/17/22
2014 AA-5	100,435,000	Mizuho Bank, Ltd.	08/19/22
2014 AA-6	100,435,000	Mizuho Bank, Ltd.	08/19/22
2012 A-1	100,000,000	Mizuho Bank, Ltd.	09/27/22
2012 A-2	100,000,000	Mizuho Bank, Ltd.	09/27/22
2011 DD-3A	50,000,000	US Bank, N.A.	10/16/22
2011 DD-3B	50,000,000	State Street Bank and Trust Company	10/16/22
2010 CC	200,000,000	Barclays Bank PLC	12/13/22
2001 F-2	84,130,000	JPMorgan Chase Bank, N.A.	04/11/23
2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	07/07/23
2014 AA-3	100,000,000	TD Bank, N.A.	09/17/23
2008 BB-2	101,000,000	Bank of America, N.A.	10/20/23
2008 BB-5	50,000,000	Bank of America, N.A.	10/20/23
2016 AA-1	100,000,000	Bank of America, N.A.	10/27/23
2011 DD-1	100,000,000	TD Bank, N.A.	11/16/23
2003 F-1-B	50,000,000	US Bank, N.A.	02/27/24
2011 FF-1	100,000,000	Bank of America, N.A.	03/15/24
2000-C	107,500,000	Sumitomo Mitsui Banking Corporation	05/04/25
	\$ 4,496,025,000		

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NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

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The Authority had the following adjustable rate demand bonds at June 30, 2019:

Series	Outstanding Principal Amount	Bank	Expiration Date
2011 DD-3A	\$ 50,000,000	US Bank, N.A.	10/16/19
2011 DD-3B	50,000,000	State Street Bank and Trust Company	10/16/19
2008 BB-2	101,000,000	Bank of America, N.A.	10/22/19
2008 BB-5	50,000,000	Bank of America, N.A.	10/22/19
2016 AA-1	100,000,000	Bank of America, N.A.	10/28/19
2008 B-3	135,000,000	Bank of America, N.A.	03/17/20
2011 FF-1	100,000,000	Bank of America, N.A.	03/17/20
2003 F-1-B	50,000,000	US Bank, N.A.	03/27/20
2000-C	107,500,000	Sumitomo Mitsui Banking Corporation	06/04/20
2014 AA-4	100,000,000	Bank of Montreal	08/11/20
2007 CC-2	50,000,000	Bank of Montreal	10/05/20
2017 BB-2	50,000,000	Bank of Montreal	10/05/20
2006 AA-1A	100,000,000	State Street Bank and Trust Company	10/07/20
2006 AA-1B	100,000,000	State Street Bank and Trust Company	10/07/20
2008 B-1A	100,000,000	Sumitomo Mitsui Banking Corporation	03/03/21
2012 B-1	100,000,000	US Bank, N.A.	03/06/21
2012 B-2	100,000,000	State Street Bank and Trust Company	03/06/21
2012 B-3	75,000,000	State Street Bank and Trust Company	03/06/21
2012 B-4	50,000,000	State Street Bank and Trust Company	03/06/21
2009 BB-1	100,435,000	Landesbank Hessen-Thuringen Girozentrale	06/15/21
2009 BB-2	100,435,000	Landesbank Hessen-Thuringen Girozentrale	06/15/21
2011 FF-2	100,000,000	Landesbank Hessen-Thuringen Girozentrale	06/15/21
2015 BB-1	100,000,000	Bank of America, N.A.	07/09/21
2019 BB	100,000,000	Industrial and Commercial Bank of China Limited	09/10/21
2008 BB-1	100,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2013 AA-2	150,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	09/13/21
2014 AA-1	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2014 AA-2	125,000,000	JPMorgan Chase Bank, N.A.	09/17/21
2013 AA-1	50,000,000	PNC Bank, N.A.	10/02/21
2007 CC-1	160,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2017 BB-1A	100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-1B	100,000,000	State Street Bank and Trust Company	10/05/21
2017 BB-3	39,500,000	Sumitomo Mitsui Banking Corporation	10/05/21
2003 F-2	101,655,000	Citibank, N.A.	10/26/21
2016 AA-2	100,000,000	PNC Bank, N.A.	10/26/21
2011 DD-2	75,000,000	JPMorgan Chase Bank, N.A.	11/12/21
2001 F-1	100,000,000	Mizuho Bank, Ltd.	06/10/22
2015 BB-2	100,000,000	Mizuho Bank, Ltd.	06/14/22
2003 F-1-A	50,000,000	Barclays Bank PLC	06/17/22
2015 BB-4	100,000,000	Barclays Bank PLC	06/17/22
2014 AA-5	100,435,000	Mizuho Bank, Ltd.	08/19/22
2014 AA-6	100,435,000	Mizuho Bank, Ltd.	08/19/22
2012 A-1	100,000,000	Mizuho Bank, Ltd.	09/27/22
2012 A-2	100,000,000	Mizuho Bank, Ltd.	09/27/22
2010 CC	200,000,000	Barclays Bank PLC	12/13/22
2001 F-2	84,130,000	JPMorgan Chase Bank, N.A.	04/11/23
2015 BB-3	100,000,000	Sumitomo Mitsui Banking Corporation	07/07/23
2014 AA-3	100,000,000	TD Bank, N.A.	09/17/23
2011 DD-1	100,000,000	TD Bank, N.A.	11/16/23
	\$ 4,631,025,000		

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Debt service requirements to maturity, including amounts relating to BANs with maturities greater than one year at June 30, 2020 are as follows (in thousands):

Year ending June 30,	Bonds		Bonds and Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest ¹	Principal	Interest ¹	
2021	-	1,147,890	214,664	272,853	\$ 1,635,407
2022	171,745	1,147,427	305,399	264,388	1,888,959
2023	236,295	1,139,073	306,949	251,761	1,934,078
2024	279,299	1,127,075	283,375	238,764	1,928,513
2025	270,057	1,112,982	288,078	226,545	1,897,662
2026-2030	2,076,581	5,373,962	1,458,356	862,955	9,771,854
2031-2035	3,165,247	4,773,038	1,343,638	567,720	9,849,643
2036-2040	4,629,076	3,902,492	873,765	338,727	9,744,060
2041-2045	6,518,856	2,581,385	803,746	173,033	10,077,020
2046-2050	6,701,836	916,853	386,118	37,986	8,042,793
2051-2055	204,213	26,466	300,000	12,750	543,429
2056-2060	71,579	5,743	-	-	77,322
Total	\$ 24,324,784	\$ 23,254,386	\$ 6,564,088	\$ 3,247,482	\$ 57,390,740

¹ Includes projected interest expense for variable rate bonds at 4.25% for fiscal year 2020 and thereafter. Variable rate bonds are remarketed daily or weekly, and interest rates are determined by the market on the day of sale.

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 approximately 462 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, 2020 and 2019, 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, 2020 and 2019. The remaining lease terms range from four to five years.

Commitments and Contingencies

Construction - The System had contractual commitments of approximately \$5.5 billion and \$7.0 billion at June 30, 2020 and 2019, respectively, for water and sewer projects.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 Lease, 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, 2020, the potential future liability attributable to the System for claims outstanding against the City was estimated to be \$347 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 maybe 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 2020 and 2019, the System paid \$460 thousand and \$0, respectively, in arbitrage rebates. At June 30, 2020 and 2019, the Authority had a liability of \$2.6 million and \$2.2 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, 2020 and 2019

NOTE 10 - RESTRICTED ASSETS

As of June 30, 2020 and 2019, certain cash, investments, and accrued interest of the System were restricted as follows (in thousands):

	<u>2020</u>	<u>2019</u>
The Water Board		
Operation and maintenance reserve fund	\$ 264,178	\$ 260,102
Local water fund	13,070	12,264
Subtotal - The Water Board	<u>277,248</u>	<u>272,366</u>
The Authority		
Revenue fund	1,067,906	1,061,319
Debt service reserve fund	414,141	399,768
Construction fund	573,228	54,095
Arbitrage rebate fund	45	-
Escrow accounts	362,952	365,810
Subtotal - The Authority	<u>2,418,272</u>	<u>1,880,992</u>
Total restricted assets	<u>\$ 2,695,520</u>	<u>\$ 2,153,358</u>

The operation and maintenance reserve fund is established as a depository to hold a reserve as required by the First Resolution. At 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, 2020 and 2019

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 ("NYCERS QPP" or "Pension Plan"). The Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by 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 at 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 ("RSSL") 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 ("Statutory Rates"). 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"). Under OYLM, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the June 30, 2017 actuarial valuation was used for determining the fiscal year 2019 statutory contributions. Member contributions vary by class.

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 ten 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, 2020 and 2019

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 2020 and 2019 was \$3.7 billion and \$3.7 billion, respectively, and the amount of the Authority's contribution to the Pension Plan for such fiscal years 2020 and 2019 was \$75 thousand and \$78 thousand, respectively.

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

The Authority's net pension liabilities reported at June 30, 2020 and 2019 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, 2019 and June 30, 2018, respectively, based on the OYLM described above, and rolled forward to the respective fiscal year-end measurement dates.

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, 2020 actuarial valuation to determine the fiscal year 2021 Authority's contributions:

Actuarial Assumptions used for determining fiscal year 2021 Authority's Contributions	
Item	Fiscal Year 2021 Authority's Contributions
Valuation Date	June 30, 2019 (Lag).
Assumed Rate of Return on Investment	7.0% per annum, net of investment expense. Actual return for variable funds.
Post-Retirement Mortality	Tables adopted by the Boards of Trustees during fiscal year 2019.
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.
Assumed Cost-of-Living Adjustments	1.5% per year for Tier I, Tier II, Tier IV and certain Tier III and Tier VI retirees. 2.5% per year for certain Tier III and Tier VI retirees.
Liability Loads	Estimates of certain obligations.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 the 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 2020 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 2020.

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:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rates of Return
U.S. Public Market Equities	27.00%	7.60%
Developed Public Market Equities	12.00%	7.00%
Emerging Public Market Equities	5.00%	10.60%
Fixed Income	30.50%	3.10%
Private Equities	8.00%	11.20%
Private Real Estate	7.50%	7.00%
Infrastructure	4.00%	6.80%
Opportunistic Fixed Income	6.00%	6.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability of the Pension Plan as of June 30, 2020 and 2019, 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, 2020 and 2019

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):

	Sensitivity Analysis					
	Net Pension Liability as of June 30, 2020					
	1% Decrease (6.0%)		Current Discount Rate (7.0%)		1% Increase (8.0%)	
Net Pension Liability	\$	631	\$	422	\$	246

Pension Liability

At June 30, 2020 and 2019, the Authority reported a liability of \$422 thousand and \$393 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, 2020 and 2019, the Authority's proportion was 0.002% and 0.002%, respectively.

Pension Expense

For the years ended June 30, 2020 and 2019, the Authority recognized pension expense of (\$ 44) thousand and (\$16) thousand, respectively.

Deferred Outflows and Inflows of Resources

At June 30, 2020, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 42,539	\$ 19,050
Changes of assumptions	178	12,509
Net difference between projected and actual earnings on pension plan investments	20,058	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	(325,666)	(23,974)
The Authority's contributions subsequent to the measurement date	-	-
Total	<u>\$ (262,891)</u>	<u>\$ 7,585</u>

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2020 will be recognized in pension expense as follows:

Year ended June 30,	<u>Amount</u>
2021	\$ (112,002)
2022	(83,515)
2023	(56,040)
2024	(15,926)
2025	(2,960)
2026	(33)

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. 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, 2020 and 2019 OPEB actuarial valuations:

Group	<u>2020</u>	<u>2019</u>
Active	11	10
Active off payroll	1	2
Deferreds	1	1
Retired	<u>5</u>	<u>5</u>
Total	<u>18</u>	<u>18</u>

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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, 2020 and 2019, the Authority had five and five retirees, respectively, and made contributions of \$20.5 thousand and \$23.1 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 employees for 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, 2019 for the fiscal year ending June 30, 2020, which was the basis for the fiscal year 2020 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, 2020 and 2019 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 \$1.9 million and \$1.8 million were measured as of June 30, 2020 and 2019, respectively and were determined by actuarial valuations as of those dates.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The following table shows changes in the Authority's net OPEB Plan liability for fiscal years 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Balance at beginning of the year	\$ 1,828	\$ 1,457
Changes for the year:		
Service cost	97	111
Interest	53	47
Difference between expected and actual experience	(43)	572
Changes in assumptions or other inputs	33	(336)
Actual benefit payments	(21)	(23)
Other changes ¹	(18)	-
Net changes	<u>101</u>	<u>371</u>
Net OPEB Plan liability - end of the year	<u>\$ 1,929</u>	<u>\$ 1,828</u>

¹Repeal of Cadillac Tax

The Authority's annual OPEB Plan expense for fiscal years 2020 and 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Components		
Service costs	\$ 97	\$ 111
Interest on the total OPEB Plan liability	53	47
Changes of assumptions	(56)	(60)
Difference between expected and actual experience	39	44
Other changes in total OPEB liability ¹	(18)	-
Total OPEB Plan Expense	<u>\$ 115</u>	<u>\$ 142</u>

¹Repeal of Cadillac Tax

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Funded Status and Funding Progress

As of June 30, 2020, the most recent actuarial measurement date, the cost was 0% funded. The total OPEB Plan liability for benefits was \$1.9 million, and the plan fiduciary net position was \$0, resulting in a net OPEB Plan liability of \$1.9 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 162.4%. The impact on the net OPEB Plan liability of a 1% increase or decrease in the discount rate and trend is included in on page 66.

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 2020 and the fiscal year 2019 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 2020 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 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).

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The OPEB Plan-specific actuarial assumptions used in the fiscal year 2020 OPEB Plan valuation are as follows:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Discount Rate	2.66% per annum for the June 30, 2019 measurement date. 2.79% for the June 30, 2019 valuation date. ¹
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 2019 Assumptions and Methods 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 2018 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.

Employer premium contribution schedules for the months of July 2019 and January 2020 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 2020 premium rate was different than the July 2019 premium rate, the valuation assumed that the January 2020 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).

The probability of retirement set out in each of the Silver Books 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 2026. 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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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:

Plan	Monthly Rates	
	2020	2019
HIP HMO		
Non-Medicare Single	\$ 753.40	\$ 729.97
Non-Medicare Family	1,845.83	1,783.60
Medicare	174.52	170.84
GHI/EBCBS		
Non-Medicare Single	710.74	741.40
Non-Medicare Family	1,866.41	1,947.32
Medicare	188.20	191.64
Other HMOs ¹		
Non-Medicare Single	1,102.40	1,075.01
Non-Medicare Family	2,521.20	2,409.82
Medicare Single	307.58	338.86
Medicare Family	607.20	668.49

¹ Other HMO premiums represent the total premium for medical (not prescription drug) coverage, including retiree contributions.

Welfare Fund

For the fiscal year 2019 valuation, the Welfare Fund contribution reported for fiscal year 2019, including any reported retroactive amounts, was used as the per capita cost for valuation purposes.

The calculations reflect an additional one-time \$100 contribution for fiscal year 2020 in July 2019 and fiscal year 2021 in July 2020.

Reported annual contribution amounts for the last two years are shown in Section VII-h to VII-I of the OPEB Plan valuation report dated September 11, 2020.

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

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

	Annual Rate	
	2020	2019
NYCERS	\$ 1,897	\$ 1,870

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Medicare Part B Premiums are as follows:

<u>Calendar Year</u>	<u>Monthly Premium</u>
2013 - 2015	\$ 104.90
2016	109.97
2017	113.63
2018	125.85
2019	134.43
2020	143.21

2020 Medicare Part B premiums are assumed to increase by Medicare Part B trend rates.

Medicare Part B premium reimbursement amounts have been updated to reflect the actual premium rates announced for calendar years through 2020. Due to limited cost-of-living increase in Social Security benefits for calendar years 2018, 2019, and 2020, 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 2020 OPEB Plan valuation, the annual premium used was \$1,665.84, which is equal to 12 times an average of the calendar year 2019 and 2020 monthly premiums shown.

For calendar year 2020, the monthly premium of \$143.21 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 \$144.60 for calendar year 2020, representing the proportion of the Medicare population that will pay the announced amount.

Overall Medicare Part B Premium amounts are assumed to increase by the following percentages to reflect the income-related increases in Medicare Part B Premiums for high income individuals.

<u>Fiscal Year</u>	<u>Income-Related Medicare Part B Increase</u>
2020	5.2
2021	5.3
2022	5.4
2023	5.5
2024	5.6
2025	5.8
2026	5.9
2027 and later	6.0

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, 2020 and 2019

Health Care Cost Trend Rate (“HCCTR”)

Covered medical expenses are assumed to increase by the following percentages. For purposes of measuring entry age calculations, actual historic plan increases are reflected to the extent known, with further historic trend rates based on the trend assumed for fiscal year 2020 valuation.

HCCTR ASSUMPTIONS

Fiscal Year Ending ¹	Pre-Medicare Plans	Medicare Plans	Medicare Part B Premiums	Welfare Fund Contributions
2020	7.00%	5.00%	5.74% ¹	3.50%
2021	6.75	4.90	5.00	3.50
2022	6.50	4.90	5.00	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

¹ Reflects actual calendar year premium for the first six months of fiscal year 2021 (July 2020 to December 2020) and 5.0% trend for remaining six months

Age and Gender-Related Morbidity

The premiums are age and gender adjusted for GHI/EBCBS, HIP HMO 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:

Age	Male	Female	Age	Male	Female
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.

For Medicare costs, relative factors based on the Yamamoto Study for net Medicare costs for 2010 for inpatient, outpatient, and professional costs were blended. Prescription drug costs were not reflected as NYCHBP excludes most drugs from coverage. Professional costs were weighted at 64%, based on the GHI portion of the combined GHI/EBCBS premiums reported historically. Inpatient costs were weighted as twice as prevalent as outpatient costs based on the relative allocation suggested in the Yamamoto Study.

Costs prior to age 65 were approximated using the non-Medicare data, but they assume that individuals under age 65 on Medicare had an additional disability-related morbidity factor.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

Age	Male	Female	Age	Male	Female
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 \$334.14 out of the \$710.74 for single coverage and \$887.27 out of the \$1,866.41 for family coverage for fiscal year 2020 rates) and a 2.50% 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 fiscal year 2020 pension valuation included changes to mortality. These new assumptions have also been reflected in this valuation.

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

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

PLAN PARTICIPATION ASSUMPTIONS

Benefits	NYCERS
Pre-Medicare	
- GHI/EBCBS	72%
- HIP HMO	20
- Other HMO	4
- Waiver	4
Medicare	
- GHI	72
- HIP HMO	20
- Other HMO	4
- Waiver	4
Post-Medicare Migration	
- Other HMO to GHI	0
- HIP HMO to GHI	0
- Pre-Med. Waiver	
** To GHI @ 65	0
** To HIP @ 65	0

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.

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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Dependent Coverage Assumptions

Group	NYCERS
Male	
- Single Coverage	35
- Spouse	35
- Child/No Spouse	5
- Spouse and Child	25
Total	100%
Female	
- Single Coverage	70
- Spouse	20
- Child/No Spouse	5
- Spouse and Child	5
Total	100%

Demographic Assumptions

The fiscal year 2020 pension valuation included changes to several demographic assumptions including retirement, mortality, disability, withdrawal, and salary scale. These new assumptions have also been reflected in this valuation.

COBRA Benefits

Although COBRA beneficiaries contribute 102% of “premiums,” but 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.

In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI-covered individuals and families is estimated assuming that 30% of employees not eligible for other benefits elect COBRA coverage for 15 months. A lump-sum COBRA cost of \$1,250 was assumed for terminations during fiscal year 2020. This lump-sum amount is increased by the Pre-Medicare HCCTR for future years but is not adjusted for age-related morbidity.

The Cadillac Tax was repealed as of December 2019.

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.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 2.66 %, 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 (1.66%) or 1% higher (3.66%) than the current rate (in thousands):

Sensitivity Analysis					
Net OPEB Plan Liability as of June 30, 2020					
	1% Decrease (1.66%)	Current Discount Rate (2.66%)	1% Increase (3.66%)		
Total OPEB Plan Liability	\$ 2,204	\$ 1,929	\$ 1,700		

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:

Sensitivity Analysis					
Net OPEB Plan Liability as of June 30, 2020					
	1% Decrease (6.00% decreasing to 3.50%)	Healthcare Cost Trend Rates (7.00% decreasing to 4.50%)	1% Increase (8.00% decreasing to 5.50%)		
Total OPEB Plan Liability	\$ 1,599	\$ 1,929	\$ 2,365		

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

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 437	\$ 166
Changes of assumptions or other inputs	52	383
Total	\$ 489	\$ 549

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

Fiscal Year Ended June 30,		Amount
2021	\$	(17.0)
2022		(17.0)
2023		(17.0)
2024		(17.0)
2025		(16.3)
2026		11.7
2027		12.9
2028		(0.5)

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, 2020 and 2019, the System reported \$29 million and \$33 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.

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

On July 23, 2020, the Authority issued \$434.8 million of Fiscal 2021 Series 1 Bond Anticipation Notes to the New York State Environmental Facilities Corporation.

On July 23, 2020 the Standby Bond Purchase Agreement between the Authority and Bank of Montreal under which liquidity support is provided for the Authority’s Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2007 Series CC, which was scheduled to expire on October 5, 2020, was extended to October 5, 2023.

New York City Water and Sewer System

NOTES TO COMBINING FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

On July 23, 2020 the Standby Bond Purchase Agreement between the Authority and Bank of Montreal under which liquidity support is provided for the Authority's Water and Sewer System Second General Resolution Revenue Bonds, Adjustable Rate Fiscal 2017 Series BB, Subseries BB-2, and which was scheduled to expire on October 5, 2020, was extended to October 5, 2023.

On July 23, 2020 the Standby Bond Purchase Agreement between the Authority and Bank of Montreal 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-4, and which was scheduled to expire on August 11, 2020, was extended to August 11, 2023.

On August 13, 2020, the Authority drew down \$155 million of Fiscal 2021 Series 1 BAN proceeds. The proceeds were used to fund capital projects of the System.

On September 30, 2020, the Authority issued \$650 million of fixed rate tax-exempt Water and Sewer System Second General Resolution Bonds, Fiscal 2021 Series AA (the "Fiscal 2021 Series AA Bonds"). The proceeds of the Fiscal 2021 Series AA Bonds were used to pay for the costs of capital improvements to the System and to refund \$100 million of Water and Sewer System Second General Resolution Bonds, Adjustable Rate Fiscal 2006 Subseries AA-1A, \$100 million of Water and Sewer System Second General Resolution Bonds, Adjustable Rate Fiscal 2006 Subseries AA-1B, \$108 million of Water and Sewer System Second General Resolution Bonds, Fiscal 2011 Series CC (Taxable Build America Bonds), and \$147.1 million of Water and Sewer System Second General Resolution Bonds, Fiscal 2011 Series EE. The proceeds of the Fiscal 2021 Series AA Bonds also paid for bond issuance costs.

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB Plan Liability					
Service cost	\$ 97	\$ 111	\$ 94	\$ 101	\$ 136
Interest	53	47	42	43	43
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(43)	572	(106)	(96)	(8)
Changes of assumptions	33	(336)	35	(222)	-
Benefits payments	(21)	(23)	(20)	(15)	(17)
Cadillac tax repeal	(18)	-	-	-	-
Net change in total OPEB Plan Liability	102	371	45	(189)	154
Total OPEB Plan liability - beginning	1,828	1,457	1,412	1,601	1,447
Total OPEB Plan Liability - ending	\$ 1,929	\$ 1,828	\$ 1,457	\$ 1,412	\$ 1,601
Covered payroll	\$ 1,187	\$ 942	\$ 859	\$ 1,038	\$ 1,148
Total OPEB Plan Liability as a percentage of covered payroll	<u>162.4%</u>	<u>193.9%</u>	<u>169.6%</u>	<u>135.9%</u>	<u>139.5%</u>

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:

2020	2.66%
2019	2.79%
2018	2.98%
2017	3.13%
2016	2.71%

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>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	%	0.002	0.002	0.003	0.004	0.005	0.005	0.005	0.005
Authority's proportionate share of the net pension liability	\$	422	393	516	828	1,215	1,012	901	1,154
Authority's covered payroll	\$	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	%	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	%	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$	75	78	111	136	170	161	141	136	157	113
Contribution in relation to the actuarially determined contribution	\$	(75)	(78)	(111)	(136)	(170)	(161)	(141)	(136)	(157)	(113)
Contribution deficiency (excess)	\$	-	-	-	-	-	-	-	-	-	-
Authority's covered payroll ¹	\$	<u>1,187</u>	<u>942</u>	<u>859</u>	<u>1,038</u>	<u>1,148</u>	<u>1,289</u>	<u>1,181</u>	<u>1,124</u>	<u>919</u>	<u>1,026</u>
Contribution as a percentage of covered payroll	%	<u>6.32</u>	<u>8.28</u>	<u>12.92</u>	<u>13.10</u>	<u>14.81</u>	<u>12.49</u>	<u>11.94</u>	<u>12.10</u>	<u>17.08</u>	<u>11.01</u>

¹ Covered payroll data from the actuarial valuation date with one-year lag.