

MINUTES OF THE ONE HUNDRED FORTY SEVENTH MEETING OF THE  
AUDIT AND FINANCE COMMITTEE  
HELD ON October 5, 2021

Pursuant to a notice and agenda dated October 5, 2021, a copy of which is annexed hereto, the one hundred forty-seventh (147<sup>th</sup>) meeting of the Audit and Finance Committee (the “Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (the “Authority”) was convened at 11:00 a.m. on Tuesday, October 5, 2021, by videoconference.

The following members of the Committee were present:

Jay Koh, *Committee Chair*

Shere Abbott

Sadie McKeown

Francis Resheske

Also present were Doreen Harris, President and CEO; Janet Joseph, Senior Vice President for Strategy and Market Development; John Williams, Vice President for Policy and Regulatory Affairs; Peter J. Costello, General Counsel and Secretary to the Authority; Sara L. LeCain, Senior Counsel and Secretary to the Committee and various other staff of the Authority.

Jay Koh called the meeting to order and noted the presence of a quorum. The meeting notice and agenda were forwarded to the Committee on September 24, 2021, and to the Press on September 27, 2021.

Mr. Koh indicated that the first item on the agenda concerned the approval of the minutes of the one hundred forty-sixth (146<sup>th</sup>) meeting of the Committee, held on June 14, 2021.

Whereafter, upon a motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred and forty-sixth (146<sup>th</sup>) meeting of the Committee held on June 14, 2021 were approved.

Mr. Koh indicated that the next item on the agenda was a response to questions asked by the Committee at its June, 2021 meeting regarding the Authority's OPEB Trust from Acting Chief Financial Officer Pam Poisson.

Ms. Poisson stated that at the last Committee meeting it was reported that the trust was overfunded due to likely liabilities as a result of market movements and resulted in the Committee discussing options to reduce go forward portfolio risk and efforts to improve gains to date while concurrently continuing to plan for the divestment of fossil fuels.

Ms. Poisson reported that the Authority's Controller, Peter Mahar worked with Milliman, Inc. ("Milliman") to assess the Authority's available options and gathered input from similar organizations to have a relevant benchmark.

Mr. Mahar stated that the OPEB trust was about 125% overfunded and noted that the overfunding raised several questions: can the Authority seek input from its advisors for a low carbon pathway or a full fossil fuel divestment; what was the Authority's thought of changing the asset allocation to a more conservative set of exposures in comparison to its future expected liability payout; and to consider how like entities with overfunded trusts are approaching this question.

Mr. Mahar reported that the Authority requested its investment advisors perform an asset allocation analysis providing the Authority with 0% fossil fuel investments. Mr. Mahar stated that the analysis provided high quality funds with equal or better Morningstar ratings and with comparable one-, three- and five-year returns. However, the investment advisors were unable to identify a corporate short or long-term bond fund with no fossil fuel investments. Mr. Mahar noted that the advisors did identify short and long-term governmental bond funds continuing no fossil fuels with five- and four-year Morningstar ratings. Mr. Mahar indicated that these fossil fuel free alternatives can be substituted into the Authority's portfolio in lieu of existing fossil fuel investments without a negative impact on the Authority's overall risk and return profile. Mr. Mahar highlighted that the asset allocation analysis provided several optional portfolios in comparison with the Authority's current asset allocation and, with advice from its investment

advisors, the Authority identified a scenario that includes a reallocation of equity to fixed income assets which lowers the Authority's risk exposure while preserving long-term returns at a level needed to pay out future liabilities. In addition, Mr. Mahar reported that the Authority's investment advisors indicated that the Authority is well positioned to pay out future liabilities from our current and proposed scenarios. Mr. Mahar noted that the Authority had the opportunity to consult with a peer organization in a similar situation and that organization has not changed their funding methods and continues to make annual contributions to the trust to mitigate any year-to-year volatility in their plan.

Ms. Poisson noted that the Authority and its investment advisors have identified a scenario that comports with the Authority's existing investment policy statement and noted the importance of working with knowledgeable investment advisors to ensure that the actuarial valuation approach is up to date and if necessary, work together to refine the investment policy statement to ensure the Authority retains an appropriate balance between risk and return given the evolving market conditions.

The Committee asked questions and were satisfied with the responses.

Mr. Koh indicated that the next item on the agenda was a report on the Authority's transaction through LoanStreet.

Ms. Poission reported that the Authority sees value in keeping several financing options open to ensure the Authority is well positioned to serve rate payers cost effectively as finance markets evolve. Ms. Poisson noted that participation sale transaction tends to produce a better net present than comparable bond sale offerings, as it allows the Authority to diversify its financial audience which will generally help grow the climate finance markets. Ms. Poisson reported that at the end of last quarter, approximately half of the loans available for sale were purchased and the Authority expects to close on another \$11.8 million in notional balance comprised of tier one and tier two loans. Ms. Poisson also noted that the Authority is confident that the remaining tier one loans will sell within the next six to nine months. With the tier two loans, Ms. Poisson indicated that the Authority is working on marketing efforts to raise awareness of this offering and is trying

to grow the eligible market of investors by obtaining a waiver to allow federal credit unions to purchase these loans as well. Ms. Poisson indicated that the Authority expects to have continued interest in this financing over time and views it as a valuable tool in advancing climate financing.

The Committee asked questions and were satisfied with the responses.

Mr. Koh indicated the next item on the agenda was a report from the Director of Internal Audit, Mary Peck.

Ms. Peck discussed the results of an American Disability Act (“ADA”) website analysis that examines 21 different public facing the Authority and NY Green Bank webpages to ensure both are ADA compliant. Ms. Peck reported that the sites examined for the Authority and NY Green Bank are accessible to people with disabilities however, there were some deficiencies.

Ms. Peck also reported that the Authority tested its business continuity and disaster recovery plans and procedures in real time and there were no significant issues.

Ms. Peck also discussed the results of our internal audit self-assessment and noted that internal audit standards require that we engage in periodic assessments of our reports and practices with external review every five years and indicated that the Authority’s last external quality assurance review was completed in April of 2017. Ms. Peck noted that, based on a review the Authority conducted on its own internal practices, it made changes to the quality assurance and improvement program to more closely align it with the ISO standards. Mary indicated that the review found the Authority generally compliant with the ISO code of ethics and the internal standards for the professional practice of internal audit.

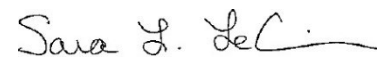
Ms. Peck noted the Authority’s recommendation for the selection of the external reviewer, and asked the Committee for approval to move forward noting that the Committee does not have to approve the document itself. Ms. Peck reported that the Authority has received two quotes indicating that both vendors are qualified and will perform the quality assurance review (“QAR”) according to standards and stated that the final report will be issued by March 31, 2022.

Ms. Peck also discussed the Authority's approval of the 2021-2022 Internal Audit Plan at the April 2021 Committee meeting and noted there have been several changes including the addition of the Authority's self-assessment and the upcoming QAR.

The Committee asked questions and were satisfied with the responses.

Mr. Koh indicated that the next item on the agenda was other business. There being no other business, the meeting was adjourned.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Sara L. LeCain".

Sara L. LeCain  
Secretary to the Committee