

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING**

**HELD ON MARCH 30, 2022**

*The Finance and Audit Committee of the Long Island Power Authority (“LIPA”) was convened at 8:05 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on March 25, 2022 and electronic notice posted on LIPA’s website annually.*

*In compliance with New York State Open Meeting Law and in furtherance of COVID-19 public safety, the following guidelines were publicly posted and followed:*

*The Long Island Power Authority is taking steps to minimize the risk of exposure for the public and our employees. As such, LIPA will not be permitting in-person access to its March 30, 2022 Finance and Audit Committee meeting. Members of the public are encouraged to observe the live stream of the meeting posted at the LIPA website. The meeting will also be recorded and posted to LIPA’s website for later viewing.*

*The following LIPA Trustees were present:*

**Sheldon Cohen, Committee Chair (in person)**  
**Elkan Abramowitz, Committee Member (in person)**  
**Mark Fischl, Committee Member (in person)**  
**Laureen Harris, Committee Member (in person)**  
**Valerie Anderson Campbell (via video conferencing)**  
**Drew Biondo (in person)**  
**Nancy Goroff (in person)**

**Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, General Counsel & Board Secretary; Tamela Monroe, Chief Financial Officer; Billy Raley, Senior Vice President of T&D Oversight; Donna Mongiardo, Vice President – Controller; Carolyn MacKool, Director of Customer Experience; Jen Hayen, Director of Communications; and Andrew Berger, Communications Assistant. Participating via video conferencing were Kenneth Kane, Senior Advisor to Operations Oversight; Rick Shansky, Senior Vice President of Power Supply and Wholesale Markets; Tom Locascio, Director of**

**External Affairs; and Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board.**

**Representing PSEG Long Island via video conferencing were Gregory Filipkowski, Chief Information Officer; Richard Tinelli, Manager of Regulatory Requirements; and Premal Patel, Manager of Accounting Services.**

**Representing KPMG were Edward Lee, Lead Audit Engagement Partner; Maureen Evers-Wilcox, Client Relationship Partner; and John Pontecorvo, Lead Audit Engagement Senior Manager.**

**Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.**

*Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the February 17, 2022 Committee meeting.*

*Upon motion duly made and seconded, the minutes of the February 17, 2022 meeting were approved unanimously.*

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*Chair Cohen stated that next item on the agenda is the Overview of Financial Results to be presented by Donna Mongiardo, Rich Tinelli, Prem Patel and Greg Filipkowski of PSEG LI.*

*Ms. Mongiardo and Mr. Tinelli, Mr. Patel and Mr. Filipkowski presented the Overview of Financial Results and then took questions from the Trustees.*

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*Chair Cohen stated that the next item on the agenda is the Discussion of Internal Audit Activities to be presented by Billy Raley.*

*Mr. Raley presented the Discussion of Internal Audit Activities and then took questions from the Trustees.*

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*Chair Cohen stated that the next item on the agenda is the Discussion of 2021 Financial Report to be presented by Donna Mongiardo.*

*Ms. Mongiardo presented the Discussion of 2021 Financial Report and then took questions from the Trustees.*

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*Chair Cohen stated that the next item on the agenda is the Discussion of 2021 Audit Results with Independent Auditors to be presented by representatives of KPMG.*

*Ed Lee and representatives from KPMG presented the Discussion of 2021 Audit Results and then took questions from the Trustees.*

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*At approximately 8:53 a.m., Chair Cohen stated that the Committee would adjourn to Executive Session to discuss personnel matters with KPMG. Chair Cohen stated that no votes would be taken and that the Committee would resume its open session.*

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*After noting that no votes were taken in the Executive Session, the public portion of the meeting of the Finance and Audit Committee reconvened at approximately 9:09 a.m.*

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*Chair Cohen stated that the next item on the agenda is Recommendation to Approve the 2021 Financial Report to be presented by Donna Mongiardo.*

*Ms. Mongiardo presented the following action item and took questions from the Trustees:*

**Requested Action**

**The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) is being requested to recommend approval of the 2021 Financial Report (the “Financial**

Report”) prepared in accordance with Section 2800(1) of the Public Authorities Law (“PAL”), in the form attached as Exhibit “B.”

### **2020 Financial Report**

Section 2800(1) of the PAL requires LIPA to submit an annual report to the Governor, the Chairman and ranking minority member of the Senate Finance Committee, the Chairman and ranking minority member of the Assembly Committee on Ways and Means, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of LIPA’s fiscal year. Under Section 2800(1)(a)(2) of the PAL, the Financial Report shall include the following: audited financials; grant and subsidy programs; operating and financial risks; current bond ratings; and long-term liabilities. Section 2800(3) of the PAL requires the Financial Report to be approved by the Board.

### **Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

*A motion was made and seconded, and the Trustees unanimously adopted the following resolution:*

### **RESOLUTION RECOMMENDING APPROVAL THE 2021 FINANCIAL REPORT OF THE LONG ISLAND POWER AUTHORITY**

WHEREAS, Section 2800(1) of the Public Authorities Law (“PAL”) requires public authorities such as the Long Island Power Authority (“LIPA”) to prepare an annual report; and

WHEREAS, LIPA’s annual report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of the PAL (the “Financial Report”); and

WHEREAS, LIPA has prepared its Financial Report, which, pursuant to Section 2800(3) of the PAL, is subject to the approval of the Board of Trustees.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the 2021 Financial Report of the Long Island Power Authority, in the form presented at this meeting.

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*Chair Cohen stated that the next item on the agenda is Recommendation to Approve the 2021 Investment Report and the 2022 Board Policy on Investments to be presented by Tamela Monroe.*

*Ms. Monroe presented the following action item and took questions from the Trustees:*

### **Requested Action**

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) is requested to adopt a resolution recommending approval of: (i) LIPA’s Annual Investment Report for 2021 in the form attached hereto as Exhibit “B”; and (ii) the 2022 Board Policy on Investments in the form attached hereto as Exhibit “D”.

### **Annual Investment Report for 2021**

Section 2925 of the Public Authorities Law (“PAL”) requires that LIPA annually review and approve an investment report. LIPA’s investments are either: (i) managed by an investment manager in primarily short-term, highly liquid investments; or (ii) invested in broad-based, low-cost equity and fixed-income mutual funds. All investments of LIPA funds are governed by the Board Policy on Investments.

LIPA’s investments were compliant with the terms and conditions of the Policy for 2021 and performed consistently with Staff’s expectations given the nature of the investments.

### **2022 Board Policy on Investments**

The Board is also required by Section 2925(6) of the PAL to annually review and approve the Board Policy on Investments, which detail the Board’s operative instructions to LIPA Staff regarding the investing, monitoring, and reporting of LIPA funds. The Board Policy on Investments was last reviewed and approved on March 29, 2021.

The proposed revisions to the Board Policy on Investments seek to clarify and update minor changes that occurred during the preceding year.

All changes to the Policy are more particularly shown in Exhibit “C”.

### **Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

*A motion was made and seconded, and the Trustees unanimously adopted the following resolution:*

**RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL INVESTMENT REPORT FOR 2021 AND THE 2022 BOARD POLICY ON INVESTMENTS**

**RESOLVED**, that the Finance and Audit Committee hereby recommends approval of the Annual Investment Report for the period ended December 31, 2021, in the form presented at this meeting; and

**BE IT FURTHER RESOLVED**, that the Finance and Audit Committee hereby recommends approval of the revised Board Policy on Investments in the form presented at this meeting to be effective immediately.

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*Chair Cohen stated that the next item on the agenda is Recommendation to Approve the Annual Report on the Board Policy Debt and Access to the Credit Markets to be presented by Tamela Monroe.*

*Ms. Monroe presented the following action item and took questions from the Trustees:*

**Requested Action**

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) is requested to adopt a resolution recommending that the Board: (i) find that LIPA has complied with the Board Policy on Debt and Access to Credit Markets (the “Policy”); and (ii) approve the annual report for the Policy.

**Background**

By Resolution No. 1319, dated September 21, 2016, the Board adopted the Policy with the purpose of serving the long-term interests of LIPA’s customers by adopting sound financial plans in each year. Sound financial plans ensure ready access to borrowing on reasonable terms necessary to fund the infrastructure investments that maintain the reliability and resiliency of the Long Island electric system. Such financial plans contemplate prudent levels of borrowing that will accommodate efficient access to the capital markets and thereby minimize the long-term cost of providing electric service to our customer-owners. The last annual report to the Board was presented on March 29, 2021.

**Compliance with the Policy**

Staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the Policy for the period since the last annual review. The Policy requires that LIPA achieve the lowest long-term cost to our customer-owners by adopting budgets and financial plans that meet the following objective:

**“Support credit ratings of at least A2/A”**

- In 2021, LIPA’s three ratings were reaffirmed at A2, A, A, from Moody’s, S&P Global, and Fitch Ratings, respectively. Fitch indicated a “positive” outlook to its rating.

**“For 2020 and 2021, achieve fixed-obligation coverage ratios of no less than (i) 1.35x on the combination of LIPA-issued debt and lease payments; and (ii) 1.15x on the combination of LIPA issued debt, Utility Debt Securitization Authority (“UDSA”)-issued debt, and lease payments.”**

- For the period ended December 31, 2021, LIPA achieved coverage ratios of 1.40x for LIPA-issued debt and lease payments and 1.26x for LIPA and UDSA-issued debt and lease payments.
- The 2022 Budget is set to meet a 1.40x fixed-obligation coverage ratio, as required by the
- Policy for 2022.

**“Generate sufficient cash flow from revenues to maintain the issuance of new debt as a percentage of capital spending at 64 percent or less as measured on a three-year rolling average; however, allow this percentage to exceed 64 percent target on a forward-looking three-year rolling average in 2022 as LIPA responds to the effects of the COVID-19 pandemic and Tropical Storm Isaias.”**

- New debt as a percentage of capital spending for the three-year rolling average for the period ended December 31, 2021 was approximately 63%.

**“Maintain (i) cash on hand at each month end of at least \$100 million in the Operating Fund and \$150 million in the Rate Stabilization Fund, and (ii) cash on hand and available credit of at least 120 days of operating expenses.”**

- Cash on hand at the end of each month exceeded the target of \$100 million.
- As of December 31, 2021, the Operating and the Rate Stabilization funds totaled \$129 million and \$162 million, respectively.
- During 2021, cash on hand and available credit exceeded the target of at least 120 days available for operating expenses.
- As of December 31, 2021, 300 days of operating expenses were available in cash and credit.

**“Annually, pre-fund obligations to LIPA’s Service Provider for pension costs from operating expenses in a fiscally sound manner, as measured by an actuarial services firm no less than every other year.”**

- As measured by an actuarial services firm, LIPA funded \$37.4 million to the PSEG Long Island pension plan trust account.
- As of December 31, 2021, the PSEG Long Island pension plan trust account had assets valued at \$422 million compared to a benefit obligation of \$596 million.

**“Annually pre-fund obligations to LIPA’s Service Provider for Other Post-Employment Benefits (“OPEBs”) to a dedicated OPEB Account in a fiscally sound manner, as measured by an actuarial services firm no less than every other year.”**

- As measured by an actuarial services firm, LIPA funded \$51.5 million to the LIPA OPEB account in 2021.
- LIPA’s OPEB account to prefund the OPEB benefits of PSEG Long Island employees had assets valued at \$581 million compared to a benefit obligation of \$640 million.

**“Pre-fund LIPA’s OPEB Trust in a fiscally sound manner, as measured by an actuarial service firm no less than every other year.”**

- The funding levels have been reviewed by an actuarial services firm within the last two years.
- The LIPA OPEB Trust for LIPA employees had assets valued at \$30 million compared to and benefit obligations of \$23 million.

**“Pre-fund LIPA’s Nuclear Decommissioning Trust Fund in a fiscally sound manner, as measured by an actuarial service firm, no less than every other year.”**

- As measured by an actuarial services firm, LIPA funded \$0.3 million to the NDTF in 2021.
- The NMP2 Nuclear Decommissioning Trust Funds had assets valued at \$184 million compared to a liability of \$87 million.
- The funding levels have been reviewed by an actuarial services firm within the last two years.

### **Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise risks are brought to the Board’s attention throughout the year. One such enterprise risk is related to liquidity.

Specifically, the risk identified is, “Insufficient liquidity to cover obligations greater than 60 days (i.e., loss of revenue stream) results in the inability to make debt service payments, pay UDSA Bondholders, and cover operating expenses.”

This risk is rated as a medium-level risk and is mitigated by LIPA’s ability to access capital markets, borrow from rate stabilization funds, and borrow from a revolving line of credit or in the commercial paper market. In September 2021, all three rating agencies reaffirmed LIPA’s credit ratings, with one credit agency revising LIPA’s outlook from Stable to Positive, helping to reduce this risk by providing confidence in LIPA’s ability to access capital markets.

Based on LIPA’s credit ratings and ability to access capital markets, we believe this risk is being adequately managed. LIPA’s liquidity remains strong, well above the 120-day minimum required by the Policy as noted above.



**Annual Review of the Policy**

LIPA Staff has reviewed the Policy and suggests no amendments at this time.

**Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

*A motion was made and seconded, and the Trustees unanimously adopted the following resolution:*

**RESOLUTION RECOMMENDING APPROVAL OF THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON DEBT AND ACCESS TO THE CREDIT MARKETS**

WHEREAS, the Board Policy on Debt and Access to the Credit Markets (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1319, dated September 21, 2016;

WHEREAS, the last annual report to the Board was presented on March 29, 2021; and

WHEREAS, the Finance and Audit Committee has conducted an annual review of the Policy and affirms that the Policy has been complied with.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Finance and Audit Committee hereby recommends that the Board find that LIPA has complied with Policy for the period since the last annual review and approve the annual report to the Board.

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*Chair Cohen stated that the last item on the agenda is the Discussion of Customer Arrears Programs and Outreach to be presented by Carolyn MacKool.*

*Ms. MacKool presented the Discussion of Customer Arrears Programs and Outreach and then took questions from the Trustees.*

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*Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:28 a.m.*

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