Minutes of a meeting of the New York State Thruway Authority/Canal Corporation Audit and Finance Committee, held in the Board Room at Administrative Headquarters, 200 Southern Boulevard, Albany, New York and via video conference from the Authority’s New York and Buffalo Division Offices. The meeting began at 3:00 p.m.

The following members of the Audit and Finance Committee were present, constituting a quorum:

Present:
Chairman John L. Buono, ex officio Audit and Finance Committee Member
Frederick Howard, Audit and Finance Committee Member
Donna J. Luh, Audit and Finance Committee Member, via video conference
E. Virgil Conway, Chair, Audit and Finance Committee, via video conference

In addition, there were present the following staff personnel:

Michael R. Fleischer, Executive Director
Daniel Gilbert, Chief of Staff
Christopher Waite, Chief Engineer
Kevin Allen, Acting Director, Audit and Management Services, via video conference
Betsy Graham, Acting Director of Public Affairs
John Bryan, Chief Financial Officer
Jill Warner, Board Administrator
Sharon O’Conor, General Counsel
Tracie Sandell, Assistant Counsel
Dorraine Steele, Director, Office of Fiscal Audit and Budget, via video conference
Michael Sikule, Director, Office of Investments and Asset Management
Karen Osborn, Budget Manager, Office of Fiscal Audit and Budget
Also in Attendance:
John Armstrong, Production Coordinator, New York Network
Stanley Kramer, Bond Counsel, Hawkins, Delafield & Wood, via video conference
Bill Kahn, Partner, UHY Advisors NY, Inc., via video conference

PUBLIC SESSION

Chairman Buono and Mr. Howard welcomed back Mr. Conway who had returned to work after a prolonged illness.

Mr. Conway called the meeting of the Audit and Finance Committee to order.

Ms. Warner recorded the minutes as contained herein.

Item 1
Approval of Minutes of Audit and Finance Committee Meeting No. 10

After full discussion, on the motion of Mr. Howard, seconded by Mr. Conway, without any objections, the Audit and Finance Committee approved the Minutes of Audit and Finance Committee Meeting No. 10, held July 16, 2008.

Items 2 & 3
Review and Approve Revised 2008 Financial Plan and 2009 Thruway Budget for Board Action
Review and Approve 2009 Canal Budget for Board Action

Mr. Bryan requested that he be allowed to present Items 2 and 3 together. Mr. Conway concurred. Mr. Bryan reported that the underlying theme is that ongoing enhanced cost containment efforts will ensure that the 2008 and 2009 budgets remain in balance and that the Authority continues to deliver safe transportation services more efficiently.

Compared to the 2008 Budget that was adopted by the Board in December of 2007, the Revised 2008 Budget includes updated revenue, expense and fund deposit adjustments but still insures a balanced budget for the year. The continuation of operating expense reductions and other...
actions will allow the Authority to meet its needs in 2008, despite a reduction in revenues attributable to high fuel prices and the current recessionary national economic environment. The 2008 Operating budget was reduced by $13 million, primarily through enhanced hiring controls implemented at the Board’s request.

The Proposed 2009 Budget is based on the assumption that the generally poor national economic environment will continue to impact traffic on the Thruway. Stantec’s traffic forecast predicts that traffic will continue to decline by an additional 1 percent next year. To meet this challenge, the Proposed 2009 Budget includes a reduction of an additional 30 full-time staff positions, adding to the nearly 460 positions that have been eliminated over the last decade.

Before Mr. Bryan briefly went over other parts of the budget, he mentioned that the Chairman requested staff amend the Proposed 2009 Budget to add additional savings by extending the current strict hiring controls through 2009. The documents before the Committee today include the impact of this extension.

For 2009, overall, staff anticipates the total operating budget for the Canal and Thruway will grow by a rate just under the latest consensus inflation forecasts for the year. However, after adjusting for mandated, non-discretionary costs, operating expenses for both the Canal and the Thruway are expected to actually decline by more than 1 percent under the Proposed 2009 Budget.

The Proposed 2009 Budget includes funding for several important capital projects:

- The completion of a major deck replacement effort on the Tappan Zee Bridge;
- An important deck replacement job at one of the Grand Island Bridges;
- The completion of the Interchange 17 project, that will provide a new, seamless interchange between I-87 and I-84;
- The completion of the new Woodbury Toll Plaza that will bring highway speed E-ZPass to our customers in that area; and
• The total reconstruction of a 15 mile section of highway in the Syracuse Division, which will be the largest single highway reconstruction project the Authority has ever undertaken.

Finally, as noted in the Multi-Year Financial Plan:

• Ongoing Cost containment is expected to continue to limit annual increases in operating costs to a rate that is near or at the projected rate of inflation, with no projected operational deficits anticipated through 2011;

• Debt service coverage is expected to remain above the minimum levels established in the Authority’s Fiscal Management Guidelines and bond resolution through 2011. As a result, the Authority will continue to be able to issue General Revenue bonds to finance its capital needs;

• No reductions in the Multi-Year Capital Program are required to retain a balanced financial plan. The Authority will continue to invest $2.7 billion into the Multi-Year Capital Program, with over $1.0 billion in lettings scheduled from now until the end of 2011. This will ensure that the overall condition rating of the Authority’s highway and bridge assets will remain in good condition and the safety of the motoring public will be preserved; and

• Sufficient cash resources will be available, allowing pay-as-you-go financing of the Multi-Year Capital Program to remain above 20%.

Mr. Howard stated that the last Stantec report the Board received was in July and he questioned when an update on that report would be provided. He added that at the time Stantec’s forecast was rather gloomy and that he feels the Board should be keeping a close eye on the numbers and requested an update be provided by the end of the year. Mr. Bryan responded that the Authority needed traffic to fall at an accelerated rate in order to meet their forecast and at the time of this meeting the numbers were not all that far off from the forecast. He also stated that an update to
the traffic report will be required when the Authority goes back into the Bond market, potentially by the January Board Meeting. Mr. Howard clarified that interim reports would suffice to give the Board an idea on where things stand, rather than waiting to provide the entire report. Mr. Bryan stated that the daily traffic numbers for October and November were not all that good and that he would ask Stantec to provide more frequent updates.

Mr. Conway inquired as to the projects that had been delayed or dropped from the Capital Plan. He asked for assurance that staff was unanimous in agreeing that delaying or pushing out these projects had in no way compromised the safety of the Thruway. He asked if there were any staff members who did not agree but whose opinions were silenced by pressure from their supervisors. Mr. Bryan responded that in the Spring the Authority had a minor delay in cash flow that affected the timing of a few projects but that no projects were canceled or moved, they just started a little behind schedule. He concurred that this had no effect on the safety of the Thruway customers. Mr. Fleischer added that it was not a matter of contractors getting paid more slowly for ongoing work, projects were started later or work was delayed until later in the program as staff was going through the toll process. In order to avoid getting ahead of the Board authorization and assuming liability for funding not yet secured, lettings were delayed.

Mr. Bryan stated that this was a difficult and stressful budgeting process. On top of the normal process this year staff had to deal with a deteriorating fiscal climate which led to a need for enhanced cost containment efforts in the Spring. He stated that there was some disappointment that operating contracts and some additional work had to be delayed. Right now the Authority has 250 vacancies that are not being filled, only positions related to safety (specifically snow and ice removal) are being filled at this point and people are feeling the stress of that. But despite the difficult process he believes that everyone has been onboard and the reason for bringing this budget to the Committee today is because everyone at the table pulled through it and worked together to make some sensible decisions. Mr. Fleischer stated that with regard to the Capital Program staff did defer projects out of the program due to the escalating costs of construction materials. Those decisions were made by the Capital Program Management Group consisting of Chris Waite, Don Bell and John Bryan and their recommendations were adopted in full without any changes made by Mr. Fleischer or any other member of the Executive Staff. While no one
was happy to defer projects, safety was the first priority and the projects that were deferred were either considered less essential or staff thought a less intensive solution could be found. In some cases that meant doing a rehabilitation instead of a replacement or a repaving as opposed to a full reconstruction. Those decisions were made with engineering judgements keeping safety paramount and those judgements were not overruled.

Mr. Howard stated that staff is predicting 30 fewer positions at the end of 2009. He asked how that computes with what staff told the Comptroller in response to his report. Mr. Fleischer responded that it is actually more aggressive than what was reported to the Comptroller. Initially staff predicted eliminating 50 positions by 2011. Mr. Bryan stated that 10 positions were eliminated in 2008 and 30 more are predicted for 2009, so that greatly accelerates the level expected by 2011. Chairman Buono inquired as to where the cuts are taking place, and which positions. Mr. Bryan stated that they are spread all over the place, mostly administrative positions at Headquarters and some toll collectors. He clarified that funded vacant positions are not being filled, and no layoffs would be required. Mr. Fleischer stated that they are vacant funded positions that are being unfunded. Chairman Buono asked how many other vacant funded positions exist. Mr. Bryan responded that to date there are 250 vacant positions that have not been filled due to the Authority’s hiring restraints. Just recently 50 snow and ice control positions were filled. Chairman Buono questioned if the Committee asked staff to dig a little deeper than 30 could it be done without impacting public safety? What if the Committee requested that in addition to the 30 positions, staff eliminate an additional 20 to 25 positions in 2009? Mr. Bryan stated that he felt that could be done. Chairman Buono stated that his sense was that if staff came to the Committee with a number they were willing to do and were comfortable with the Committee would like to make them more uncomfortable and show more aggressiveness in reducing positions

Ms. Luh asked what was happening with the pay raises for management. Mr. Fleischer stated that a potential Item on that subject would be presented to the Board at the November 19th Meeting. It was pointed out that the Board had already approved the new contractual agreement with the Teamsters which is the bulk of the Authority’s employees. The contract was similar to that of the State although less generous in the sense that the Authority did not provide a
retroactive payment to staff to 2007 as the State did but going forward the numbers were the same. Staff has not done anything in terms of raises for management at this point. Chairman Buono clarified that the term “management” does not only apply to senior staff but also clerical and secretarial positions that fall under the term Management/Confidential. He stated that in talks with Mr. Fleischer and Mr. Bryan he asked that an Item be prepared that follows the State’s lead and achieve what the Governor is trying to do but still maintain the Authority’s employees in the same regard as other State employees.

Mr. Bryan responded that when staff constructed the 2009 Budget, they knew what the Teamster arrangement was going to be and mirrored it for all of the other unionized and Management/Confidential employees. So the resources are built into the 2009 Budget to pursue the same contract for all employees, it’s not a Budget issue. Mr. Fleischer clarified that the Budget makes the assumption for everybody but the Board’s approval of the recommended Budget does not approve the pay raises for all staff. Those Items will come before the Board separately. The Budget itself allows for the raise but does not adopt it without the Board acting separately from the Budget. Ms. O’Conor further clarified that the only raises which have been implemented at this point are the Teamsters because the Board approved that collective bargaining agreement. There are three or four additional collective bargaining agreements that have yet to come before the Board in addition to any discussion of Management/Confidential (M/C) raises. No one in those units or M/C employees will receive raises until those Items are brought before the Board.

After full discussion, on the motion of Mr. Howard, seconded by Ms. Luh, with no objections, the Audit and Finance Committee authorized submission of the Revised 2008 Financial Plan and 2009 Thruway Budget and the 2009 Canal Budget to the Authority Board for consideration.

**Items 4 & 5**

**Review and Approve 2009 Thruway Contracts Program for Board Action**

**Review and Approve 2009 Canal Contracts Program for Board Action**
Mr. Waite reported that in conjunction with the Thruway Authority’s 2009 Budget, Authority staff has prepared the 2009 Contracts Program for rehabilitation/reconstruction of highway and bridge facilities, intelligent transportation systems projects and architectural projects. The Thruway Authority’s estimated cash flow for the Program for 2009 amounts to $460,188,599. This amount includes the estimated cost of construction contracts, contingencies and engineering. Design and/or construction inspection will be provided by staff, designated engineering firms, the New York State Department of Transportation or others. This program will be funded using a combination of Thruway revenues, bond proceeds, Federal aid, State and other funds.

In order to effectively administer the 2009 Contracts Program and expedite the awarding of contracts, it is recommended that the Executive Director, Chief Engineer, and Chief Financial Officer be authorized to take the respective actions as outlined in the resolution. The authorizations provided for in this resolution are the same as what was in the 2008 Contracts Program item.

Mr. Howard asked what the difference was in the Capital Program Budget of $547 million and the cash flow figure which is $460 million. Ms. Steele responded that the budget includes in-house capital work and the equipment budget. Mr. Bryan responded that the $547 million is highways and bridges, architectural, equipment and facilities and Canals which is why the cash flow for the Capital Program is so much more than the cash flow for the Contracts Program which is just a subset of the Capital Program. To get from the $460 million to the $547 million you need to include architectural, equipment, facilities and Canal Capital costs.

Mr. Howard stated that the numbers have been inflated by 16 percent from 2008 across the board. Mr. Waite concurred stating that the figures were brought up to 2008 prices and then perhaps they were slightly over-inflated. In 2008 staff predicted an inflation rate of 15 percent but only experienced a 10 percent increase. Things have slowed down a little but he is unsure if that trend will continue or if it was just a momentary respite. Projects that have not been let were adjusted for the current inflation rates. Mr. Howard stated that it appears the engineers estimates were considered at the 2008 10 percent inflation rate and then an additional 6 percent was added.
on across the board. Mr. Waite responded that he wasn’t aware that that much had been added on but that he hopes the figure turns out to be excessive. Mr. Howard asked if the inflated numbers had originally been based upon quantities and processes and reasonable engineer’s estimates. Mr. Waite concurred. Mr. Howard stated that if the Authority enters into a deflationary economy down the road, staff would have the happy job of putting some projects back into the plan with the savings. Mr. Fleischer stated that his concern was that the engineers made the judgement about what could fit into the contracts program at $2.1 billion assuming the inflation, but had not applied it project by project; if someone just looked at the project lists without having the inflation applied it would look like the Authority was reducing the overall investment in the Program. If you added up all the projects on the list you wouldn’t get the $2.1 billion, you would get $2.1 billion minus 1/6 for the remaining projects. Mr. Fleischer wanted to be sure staff were showing the Authority was spending the $2.1 billion and that based on today’s figures this is the best guess as to what we will be able to deliver assuming a certain level of inflation. If we’ve overestimated and have less inflation then we will be able to back-fill with projects we had deferred.

After full discussion, on the motion of Mr. Howard, seconded by Ms. Luh, with no objections, the Audit and Finance Committee authorized submission of the 2009 Thruway Contracts Program and the 2009 Canal Contracts Program to the Authority Board for consideration.

Item 6
Review and Approve Scope of Services for the 2008 Financial Statement Audit, Concessionaire Review and Single Audit to be Performed by UHY, LLP

Mr. Bryan deferred to Bill Kahn of UHY Advisors NY, Inc., to present Item 6. Mr. Kahn reported via video conference from the Authority’s New York Division.

Mr. Kahn stated that UHY will conduct an independent audit of the New York State Thruway Authority’s 2008 financial statements in accordance with Generally Accepted Auditing Standards and the standards applicable to financial audits contained in Government Auditing Standards. There are two byproducts of that. One is to provide independent assurance to the
Authority’s Audit Committee that the financial statements, which are the responsibility of management, are presented fairly, in all material aspects, in conformity with Generally Accepted Accounting Principles. And secondly, to provide feedback to management and the Audit Committee on accounting and auditing issues, internal control considerations, and relevant emerging issues.

Mr. Kahn reviewed a few of the specific areas of audit focus including cash reconciliation procedures, which has been an ongoing issue the last couple of years. The audit will continue to monitor the procedures which the Authority has implemented. Next is claims and litigation which is an area that, when it comes to judgements and estimates by management, is most susceptible to a problem. Single audit/Federal grant reporting is particularly important because of the outside use of this report to assure the Authority’s compliance with various Federal guidelines. The concession audits take on a renewed interest because of the new contracts that began about a year ago and UHY will be looking at those as part of the audit. They will also be documenting internal controls, updating any changes that have occurred. The new financial management system kicked in this year and that will be of particular interest to everyone. That is what UHY is relying on for the current year and it will be a major part of the audit focus. GASB No. 45, which was new last year, focuses on post-retirement health care benefits and will continue to be an audit focus. And similar to past years the Authority’s internal audit process will continue to be a focus.

During the months of November and December UHY does preliminary work in connection with the audit, including planning, risk assessment and control testing. The audit has been scheduled to begin at the end of February and be complete in March to ensure that UHY has adequate time to meet with management and the Audit Committee prior to the reporting deadline at the end of March.

Issues that UHY spoke to the Committee about last year include cash reconciliation issues with the E-ZPass accounts and the methodology for recording property damage claims. UHY will continue to focus on these issues to ensure the Authority has taken corrective measures in these
areas. The other reports that will be issued will be a report on the single audit and a report on the concessions.

Chairman Buono asked for clarification, stating that Mr. Kahn mentioned that this audit was based on new risk standards. He questioned whether or not the auditors had always used risk as the standard. Mr. Kahn responded that his profession implemented new risk standards last year that were applicable to the Authority’s 2007 audit, but to answer the question, yes risk has always been an integral part of the audit process. UHY’s evaluation of risk is a determining factor in what auditing procedures are performed.

After full discussion, on the motion of Mr. Howard, seconded by Mr. Conway, with no objections, the Audit and Finance Committee approved the Scope of Services for the 2008 Financial Statement Audit, Concessionaire Review and Single Audit to be Performed by UHY, LLP.

**Item 7**

**Review and Approve Date Extension and a Not to Exceed Amount for the Authority to Complete the Local Highway and Bridge Service Contract (CHIPS) Transaction Approved by the Board on April 25, 2008 Pursuant to Resolution No. 5679 for Board Action**

Mr. Bryan stated that this Item seeks approval to advance to the full Board an extension of the Authority’s authorization to refund and restructure certain CHIPS bonds. The auction rate securities that are the focus of this conversion were issued by the Authority in 2003. They were issued on behalf of and are paid for by the State to fund local highway and bridge projects.

For over a year now, credit and liquidity concerns have steered investors away from auction rate investments, leading to numerous and frequent auction failures that have resulted in higher debt service costs to the State. As a result, the NYS Division of the Budget requested that the Authority convert these auction rate securities into other variable or fixed rate obligations.
The authorization to perform this transaction was originally made by the Board this past April and that authorization expired on October 31, 2008. However, due to what seems to be never-ending turmoil in the financial markets and the complications it has caused in structuring this transaction, staff were unable to complete it prior to the expiration of the authorization. As a result, at the Division of the Budget’s request, staff are seeking to extend the expiration date of this transaction until December 31, 2009. Chairman Buono pointed out that there is a letter from the Director of the Division of the Budget requesting this transaction.

After full discussion, on the motion of Mr. Howard, seconded by Ms. Luh, with no objections, the Audit and Finance Committee authorized submission of the Date Extension and a Not to Exceed Amount for the Authority to Complete the Local Highway and Bridge Service Contract (CHIPS) Transaction Approved by the Board on April 25, 2008 Pursuant to Resolution No. 5679 to the Authority Board for consideration.

**Item 8**
**Review and Approve Report of Investments for the Quarter Ending September 30, 2008 for Submission to the Board**

Mr. Bryan stated that this Item seeks approval to advance to the full Board the Authority’s investment report for the third quarter of 2008. During this period, the Authority invested a total of $1.2 billion, earning an average yield of 2.4 percent.

The yields the Authority earned in the first 9 months of the year are about half of what they were last year due to falling market rates on investments which the Authority commonly purchases, like treasuries and agencies.

At the request of the Board and in an effort to increase investment earnings, staff have invested approximately $150 million in highly-rated securities offered by public companies that the Authority is authorized to invest in under statute and its investment policy. The $150 million in short-term commercial paper that the Authority bought is earning about 1.5 percentage points
higher than the 0.5 percent that is currently offered on treasuries that the Authority would otherwise purchase.

Chairman Buono questioned whether or not investments had been made in Fannie Mae and Freddie Mac, and if so, can they be considered safe investments. Mr. Sikule confirmed that the Authority has $152 million invested in securities issued by Fannie Mae. He stated that the Authority’s financial advisor, First Southwest, has affirmed that the Fannie Mae and Freddie Mac investments are sensible investments given their high credit rating, stable outlook and the concentration limits allowed under the Authority’s investment policy. The Authority is not buying equity, it’s buying investment securities. These are short term investments of 90 days or less with a specific interest rate payable to the Authority. Chairman Buono questioned what would happen if they no longer existed. Mr. Bryan said that it appears that Congress won’t allow them to go under. The Authority’s current yield is only .45 percent. Mr. Conway asked if the financial advisor was available to speak to the Committee. Chairman Buono stated that no one was available from First Southwest but he requested that they be available for the Board Meeting and provide the Board with some background on these investments. Mr. Howard stated that perhaps the Authority’s investment policy needs to be modified. Mr. Bryan stated that the investment policy comes before the Board every year for approval, typically in March.

After full discussion, on the motion of Ms. Luh, seconded by Mr. Howard, with no objections, the Audit and Finance Committee authorized submission of the Report of Investments for the Quarter Ending September 30, 2008 to the Authority Board for consideration.

**Item 9**

**Review and Approve Reports Submitted to the Office of the State Inspector General**

After full discussion, on the motion of Mr. Howard, seconded by Mr. Conway, the Audit and Finance Committee noted the above reports as received.

Mr. Howard questioned, based on the dismissal of many of the allegations, if some employees are using the whistleblower program to harass other employees. He wondered if the
investigations give staff a basis to take disciplinary action if in fact they are violating the Authority’s work rules. Mr. Fleischer stated that the Authority investigates all allegations. Mr. Fleischer indicated that staff has to make sure that they adhere to the whistleblower policy. If a report is made, even if they’re wrong but had a reasonable basis for making the compliant, the Authority still wants them to come forward with that information. Mr. Allen stated that if the Authority found that an employee had a pattern of reporting people with no foundation for those reports then staff would pursue disciplinary action.

**Item 10**

Review and Discuss, as Necessary, the Following Items:

a. Office of the State Comptroller Audits

b. Audit and Finance Committee 2009 Draft Work Plan

Mr. Allen presented the above Items for review and discussion only.

After full discussion, the Audit and Finance Committee noted the above Items as received.

**Item 11**

Other Business

a. Status on Legislative Actions Related to Unpaid Toll

b. Status on Legislative Action Related to the Canal Corporation

Ms. O’Conor reported that the Authority submitted two pieces of proposed legislation to enhance the Authority’s ability to collect unpaid tolls. Both were passed in the Senate in 2008 but did not pass in the Assembly. With the start of a new legislative bill period the Authority has resubmitted the same legislation for the upcoming session. Both bills will need to be reintroduced, hopefully in both houses and with greater success in getting them both to pass. Chairman Buono questioned if the Assembly had a specific issue with the legislation. Ms. O’Conor responded that they did not provide any specific provisions with which they had a problem. Chairman Buono inquired as to how much money is involved in this legislation. Mr. Bryan responded that, including fees, it could be upwards of several million. This legislation would be another tool to enhance the Authority’s overall enforcement efforts. Chairman Buono
asked if the Comptroller is supporting the Authority’s effort in this matter. Mr. Bryan responded that despite what the Comptroller reported, the Authority collects over 99 percent of its tolls. He believes the Comptroller would support these measures in the spirit of what he said in his audit of the Authority. Chairman Buono requested that staff ask the Comptroller for his support. Ms. O’Conor stated that staff would do that.

Ms. O’Conor stated that with regard to the legislative action pertaining to the Canal Corporation, staff has submitted a request to the Division of the Budget asking if they would reassign financial responsibility for the Canal to the State budget. Alternatively, staff has requested that the Canal Bond cap be raised. There is a statutory cap on the issuance of bonds to support Canal capital. A very small cap was enacted in 1992 when the Canal was first transferred to the Authority. The Authority has a $60 million cap generally with an additional $10 million cap for emergency purposes. To date the Authority has used up virtually all of that funding, including the $10 million for emergency purposes so staff is requesting an increase in that authorization. It would not change the Authority’s financial responsibility but it would provide some level of cash flow relief. For example, on lock projects that are 100 year projects the Authority could issue bonds to support them and not just have a full pay-as-you-go program. Both of these requests are pending.

Chairman Buono inquired if there was any funding for the Canal coming in at the Federal level. Mr. Fleischer responded that staff has been attempting to secure Federal funding. The Army Corps has expressed an interest in the Mohawk Valley in terms of the flooding issues, but even that program required a 50 percent State match. DEC has indicated that there is no money for new initiatives. Mr. Howard stated that there is talk of new public works projects that are going to get funded, the Canal would certainly be something that staff could make a crown jewel in that effort.

Adjournment

There being no further business to come before the Audit and Finance Committee, on the motion of Chairman Buono, seconded by Ms. Luh, without any objections, the meeting was adjourned at 4:00 p.m.