



**NEW YORK STATE THRUWAY AUTHORITY
NEW YORK STATE CANAL CORPORATION**



MINUTES

FINANCE COMMITTEE MEETING NO. 8

December 12, 2011

Minutes of a meeting of the New York State Thruway Authority/Canal Corporation Finance Committee, held in the Board Room at Administrative Headquarters, 200 Southern Boulevard, Albany, New York and via video conference from the Corporation's New York Division Office, 4 Executive Boulevard, Suffern, New York.

The meeting began at 1:57 p.m.

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

Present:

Chairman Howard P. Milstein, ex officio Finance Committee Member

E. Virgil Conway, Finance Committee Chair

Richard N. Simberg, Finance Committee Member

J. Donald Rice, Jr. was not present at this meeting and did not vote on any of the Items.

In addition, there were present the following staff personnel:

Donna J. Luh, Vice Chairperson

Brandon R. Sall, Board Member

Jose Holguin-Veras, Ph.D., Board Member

Thomas J. Madison, Jr., Acting Executive Director
John Barr, Director, Administrative Services
Donald Bell, Director, Maintenance and Operations
John Bryan, Chief Financial Officer
William Estes, General Counsel
J. Marc Hannibal, Director, Audit and Management Services
Brian Stratton, Director, Canal Corporation
Thomas Ryan, Chief of Staff
Ted Nadratowski, Chief Engineer
Jill B. Warner, Board Administrator
Doraine Steele, Director, Fiscal Audit and Budget, via video conference
Jonathan Ehrlich, Special Assistant to the Chairman
Major Robert Meyers, Troop T
Lawrence Norville, Chief Compliance Officer
Kathleen LeFave, Special Assistant to the Chief of Staff
Karen Wilson, Information Technology Specialist
Joe Capovani, Civil Engineer 2, Canal Corporation

Also in attendance:

Steve VanWagenen, New York Network
Murray Bodin, public
Doug Zimmerman, Director, Toski, Schaefer & Co., P.C.
James Screen, public
Diane Yu, public

PUBLIC SESSION

Chairman Conway called the meeting of the Finance Committee to order. (46:40)

Ms. Warner recorded the minutes as contained herein.

Chairman Milstein welcomed back Committee Chair E. Virgil Conway, stating that it was good to see him back in the pink. Mr. Conway took a moment to say what a joy it was to be back and expressed his heartfelt thanks to the Chairman, members of the Board and members of the staff for the many acts of kindness that he received during the last few months.

Item 1

Approval of Minutes of Finance Committee Meeting No. 7 (47:45)

After full discussion, at the recommendation of Mr. Simberg, seconded by Chairman Milstein, without any objections, the Finance Committee approved the minutes of Finance Committee No. 7, held July 18, 2011.

Item 2

Review and Approve the Financial Reports for August, September and October 2011 (48:09)

Mr. Bryan reported that total traffic was down 1.6 percent over the first 10 months of 2010. The downward trend is fashionable. It continues to closely follow what staff is seeing in the nation's highways and regionally. The unemployment rate is hovering around 9 percent. The price of fuel was at \$98 a barrel this morning, and that has had a long term impact on passenger traffic which was down nearly 2 percent in the first 10 months.

The nation is seeing growth in industrial production and manufacturing activity. Retail sales are stimulating commercial traffic growth which was up approximately 1.3 percent for the first 10 months, so there's some sunshine on the horizon, hopefully. The persistence of this weak traffic is having a direct impact on the Authority's revenue structure. Through October the Authority has collected \$531 million in tolls which was nearly \$10 million, or nearly 2 percent, less than what was collected in the prior year. Factor that in with concession revenues, interest earnings and sundry payments, etc., total revenues are down by around \$10 million or 1.7 percent; which is approximately \$21 million less than what was planned in the Authority's budget.

On the operating expense side, staff continue to contain costs. Expense growth over last year is only up 1 percent through October which is very low considering the preponderance of bad

weather that included Tropical Storms Irene and Lee and a poor winter season. Pensions and health insurance costs are also a driver. Without all these things, operating expenses would have declined, so operating cost control is working. Despite all these factors, staff was able to limit operating expenses to the point where the Authority was \$28.5 million below the budget forecast.

Chairman Milstein asked Mr. Bryan to be sure to include the regional trend chart in the supplemental information. Mr. Bryan stated that he would do so going forward.

Dr. Veras asked for information specific to the amount of traffic. Mr. Byran responded that commercial traffic for the first 10 months of 2011 came in around 21.1 million trips and passenger traffic was around 184 million trips. Chairman Milstein added that the one area that has strengthened is the commercial sector. Dr. Veras stated that truck traffic is a leading indicator of economic activity.

After full discussion, on the motion of Mr. Simberg, seconded by Mr. Conway, without any objections, the Finance Committee approved the Financial Reports for August, September and October 2011 and authorized their submission to the Authority Board for consideration.

Item 3

Review and Approve Report of Investments for the Quarter Ending September 30, 2011 for Submission to the Board (52:48)

Mr. Bryan reported that the Authority made \$2.4 billion in investments in the third quarter, earning an average yield of .14 percent. The investments were made with funds in a variety of operating capital and bond fund accounts as well as funds for the various State debt programs that staff manage. The Authority tends to invest for very short terms right now. A one month treasury is earning .01 percent, .2 percent for CDs, and commercial paper is around 1 percent. So the market is still not a favorite to make interest earnings.

At the end of October the Authority had \$555 million invested in a variety of instruments. The majority of those were in Federal agencies like Fannie Mac and Farmer Mac; 43 percent in

commercial paper and 3 percent in CDs and because of the earnings mentioned before, the Authority did not do any treasury investments.

Chairman Milstein asked if staff had made any progress on taking some of the pools of money that the Authority could invest for longer term to go a little further out on the yield curve and do better than 14 basis points. Mr. Bryan responded that staff has been trying but because of the Authority's cash situation it is limited to 90 days. Since the Chairman requested that staff look into this issue, the average investment term has gone from 60 to just about 90 days. The Authority does not have cash laying around, it is spent on a monthly basis. The Authority's working capital is down around \$40 million, which Mr. Bryan thinks could be much higher in the future and would give staff an opportunity to invest for longer terms.

Chairman Milstein asked if the Authority has certain accounts with reserves that tend to stay at the same level for extended periods. Mr. Bryan replied that there are debt service reserves that the Authority is required, under the various bond resolutions, to have. Staff is exploring some ideas about whether or not the Authority can replace those with a surety type security and free up that cash. There is approximately \$85 million in the general revenue reserve funds.

After full discussion, on the motion of Mr. Simberg, seconded by Mr. Conway, the Finance Committee approved the Report of Investments for the Quarter Ending September 30, 2011 and authorized its submission to the Authority Board for consideration.

Item 4

Review and Approve Revisions to the 2011 Financial Plan and the 2012 Proposed Budget for the New York State Thruway Authority and the New York State Canal Corporation for Board Action (57:49)

Mr. Madison reported that the Authority has reduced travel and traffic revenue coming in and dramatically higher fuel and commodity prices that are driving construction inflation costs up. This has created, to look at the positive side of this, a real opportunity for staff to look at how to restructure the organization in some creative and significant ways; look at some additional

efficiencies and savings that staff can realize, particularly in this next fiscal year, and also take a look at how the Authority has invested historically in its capital construction program and reflect on how those priorities and that strategy might serve it differently going forward.

In the proposed budget staff is hoping to, again in the next fiscal year in particular, look at some operational changes to the organization that staff will attempt to approach, what staff thinks is a very realistic number of \$25 million in operational savings. It is an important number, \$25 million, and there are a list of initiatives that staff is in the process of targeting; including some things that have already been discussed here today by the Board, like healthcare costs and other operational streamlining initiatives that staff will be working on throughout the course of the year, but that \$25 million staff believes a real and even conservative figure for the Authority to attain on the operations side.

Staff is also looking closely at the Capital Program and how the Authority has historically invested in that program and selected projects. Of course staff is focused on maintaining the high level of service and safety above all. Staff also wants to make sure the Authority is preserving its good ratings on the highway and bridges all across the system. The Capital Plan that the Board will be voting on today represents a \$1.5 billion four-year plan. It will invest in a range of projects that are already underway and also have some new lettings.

Mr. Madison mentioned a few projects that are already taking place as part of the last Capital Program. In the Syracuse Division, at Exit 39 to Exit 40, there is a pavement reconstruction that was a \$150 million project; a significant amount of that will still be under way in the coming year. In the Albany area is the reconstruction between Exits 23 and 24; another very substantial project at over \$100 million. Out in western New York (Buffalo Division), pavement reconstruction and bridge rehabilitations are ongoing between Exits 57 and 58. There is also the continuation of Phase 2 of the Tappan Zee Bridge re-decking project down in the New York Division which is a \$170 million project and it is necessary for the Authority to move it forward.

Under this proposed Capital Program during the next four years staff will be doing an average of \$212 million per year in new project lettings and that is not including those types of projects that

Mr. Madison described. Including the Authority's capital equipment expenditures and the cost of ongoing contracts from the last program, all in all staff will spend an average of \$384 million every year of this four-year program to maintain good roadway, bridge and Canal conditions. The new Capital Program strategy also gives staff the opportunity to prepare for some future large scale projects that are in the outer years of the program, including the South Grand Island Bridge deck resurfacing project, the Amsterdam moveable dam and the new Tappan Zee Bridge. It will also allow the Canal system to recover from the devastating and very costly impacts of Tropical Storms Irene and Lee this past Fall. This plan will have an enormous and positive impact on the State's economy; by those numbers of expenditure over each of the next four years, the Authority will be creating or sustaining an estimated 45,000 construction and related jobs. This comes at a time when other agencies and authorities are similarly constrained by economic conditions but do not have the ability to advance even a fraction of the kind of program that staff is talking about here. This program will allow staff to continue the safe and efficient flow of Authority and Corporation customers, as well as of goods and services throughout the State.

Incorporating the impacts of the new Capital Program and the operational efficiencies mentioned earlier, the proposed 2012 budget comes in at slightly more than \$1 billion, which is 64.6 million or 6 percent below the level of expenditure for this current fiscal year. Staff is looking forward to working with the Board because this is only a plan and it is subject to change, particularly on the capital construction side, as staff goes forward and as financial circumstances change. In the future staff will be working closely with the Board to identify certain projects and refine the plan to meet the needs of the Authority and of its customers.

Mr. Simberg stated that the Capital Plan, up through 2015, is probably the most important decision this Board will make in some ways because of its bonding implications which is the reason that the Authority has a Board and is not a little piece of the Department of Transportation. The Capital Plan has to be looked at over a long period. The Authority's last management study, the Volpe Report, recommended for an overall 20-year plan, of which there was a ten-year segment and a five-year segment. Nobody on this Board has worked through this last Capital Plan, because it only comes up every four or five years. Mr. Simberg takes

satisfaction in what Mr. Madison has said, because it indicates that it is a working document and the Board will be able to look at it increasingly and will be able to evaluate the effect on the entire Thruway; and on that basis where the Authority will be and what it will face in 2015 as a result of what the Board decides today. On the basis that it is a continuing document and that the Board will have chances to continually review and work on it, especially over this next critical year, he commended staff for the work they have done. Mr. Conway added that it is a fantastic step forward and that Mr. Madison and his staff are to be commended.

Chairman Milstein echoed the other Board Members' praise of the plan. The system that the Board has responsibility for, particularly on the highways, was the first in the Nation. In general, the Authority's roads are 60 years old; the Authority has replaced less than 70 miles of the 570 miles which means staff has to be mindful of the safety of its travelers to prioritize the Capital Plan so that it is spent wisely. Obviously, if the Authority could wave a wand and build a new Thruway today it would. However, staff is constrained by the financial situation, and, the desire not to impose great increases in tolls on the consumers they serve. Staff has to find a middle road that keeps the road safe and, that over time modernizes the road and yet is still within a budget that the Authority can sustain. The proposed plan is a great step in that direction. One of the things the Authority is blessed by on this Board is people, including certainly Dr. Veras and Mr. Simberg who know a lot about this; and so with the benefit and guidance of the Board, Chairman Milstein is sure Mr. Madison and his team will take the Authority through this period. The Authority does not yet have a 20-year plan, but Chairman Milstein believes that is one of the things that can certainly be added.

Mr. Conway stated that the needs in this business are always infinite but the means are not. The means are finite and the Authority has one great priority - that is safety and that is its second priority and third priority, and then of course is a level of service that the Authority proudly maintains. Some Capital Projects will have to wait, because the Authority does not have the means and cannot prudently go ahead with it. Under the circumstances, staff has done an outstanding job of planning for the future, and everyone has to remember that it is a plan, it is not concrete. If it has to be changed, it will have to be changed.

Dr. Veras added that it is important in a moment like this to somehow base all investment decisions in sound engineering. The Board Members first objective is to ensure the integrity and future of the facility that they are bound to protect. However, the reality is that engineering considerations quite frequently cannot wait and, at some point the Board is going to have to make some decisions concerning how to use the money available and how best to protect the interest of the Authority's customers. The Board must do that on the basis of sound engineering and economic analysis; and it will require assessment of the condition of the infrastructure. Dr. Veras stated that he looks forward to helping both the Board and the Authority in moving these things forward.

After full discussion, on the motion of Mr. Simberg, seconded by Chairman Milstein, without any objections, the Finance Committee approved revisions to the 2011 Financial Plan and the 2012 Proposed Budget for the New York State Thruway Authority and the New York State Canal Corporation and authorized their submission to the Authority and Corporation Boards for consideration.

Item 5

Review and Approve 2012 Thruway and Canal Contracts Programs for Board Action (1:11:43)

Mr. Nadratowski reported that the 2012 program was developed in conjunction with the 2012 Authority and Canal Corporation Budget with an estimated cash flow for the Thruway of just over \$286 million and a Canal cash flow of just over \$52 million. These figures include the cost of the construction contracts, the contingencies, as well as the engineering. Projects in the Contracts Program include both ongoing projects as well as new infrastructure investments that will focus on maintaining safety and preserving assets.

There are 39 new projects to be let in 2012 valued at \$201.7 million. This program will be funded by using a combination of Thruway revenues, bond proceeds, Federal aid, State and other funds in order to administer the 2012 Contracts Program and expedite the awarding of contracts. The authorizations are the same as those in the 2011 Contracts Program except for one new

clause under Paragraph F that authorizes the Chief Engineer to advance new contracts or authorize additional work when existing emergencies are declared. Staff will be using the Office of the State Comptroller's expedited emergency procedures which will allow the Authority and the Corporation to quickly engage contractors and begin emergency work.

Dr. Veras inquired as to who defines what an emergency is. Mr. Nadratowski replied that the Authority has a process of declaring an emergency. The provisions of one of the maintenance directives outlines where an executive duty officer can declare emergencies. The Authority is authorized to follow the Office of General Services expedited contract procedure once staff has declared that emergency. Mr. Simberg asked if the emergency contracts will continue to be for a minimum amount of time and materials, rather than lump sum. Mr. Nadratowski responded that there are a few different ways to achieve these contracts. If staff has the ability to use bid item contracts they will do that. However, in many cases staff does have that kind of time, and has to go with a force account or labor, materials and equipment type of a contract.

Chairman Milstein inquires as to how much the Authority spent on emergency repairs in 2011. Mr. Bryan replied that because of Tropical Storms Irene and Lee, 2011 has been an unusual year. Mr. Nadratowski stated that the figure is approximately \$20 million to date in 2011. Mr. Milstein asked if staff has the unit prices on all time and material used. Mr. Nadratowski stated that if the Authority has contracts in existence, staff will go on force account. The labor is regulated by the union scale rates and the equipment is valued at Blue Book rates. The Authority has a method of external checks and balances for those costs.

Dr. Veras stated that he would be fine with staff exercising this authority whenever there is a Federal Declaration of Emergency but he is hesitant to allow for a situation where staff is declaring the emergency and exercising this authority independently. Mr. Nadratowski replied that there is a \$2 million limit on declared emergency costs. Chairman Milstein inquired as to how staff documents the emergency and if there is a photographic record of the condition. Mr. Nadratowski replied that at times the damage is so extensive that it is hard to get a complete picture. The Chairman stated that Dr. Veras makes a good point from a control point of view; and suggested that Mr. Hannibal's staff take a look at the last 12 emergency projects and report

back to Board as to whether or not they conform to the Board's expectation of what an emergency is.

Dr. Veras stated that through a number of past emergencies an email has been sent to the Board, within a matter of minutes, asking all Board Members to give staff the authorization to move forward with the work. In light of this fact, he inquired as to the need for this new clause. Mr. Nadratowski stated that it is not likely that the process of notifying the Board will change when there is a declared emergency and staff has to undertake significant contract work. However, in the current provisions, staff does not have the ability to move forward; staff felt it was more solid to have language in the resolution that would allow for this kind of work to take place. Mr. Simberg suggested that language be added to the resolution to include Board notification of the need for emergency repairs.

Chairman Milstein stated that Mr. Nadratowski is requesting the authority to make the emergency repairs, and Mr. Simberg has suggested a contemporaneous notification be sent to the Board; for amounts above \$2 million it would require the Board's approval before Mr. Nadratowski could go forward. The Chairman asked if the Board Members wanted the number changed or if \$2 million makes sense. Mr. Simberg replied that \$2 million makes sense; however, for emergency repairs below that amount that do not require Board approval, the Board Members should continue to be notified, as they are still costing the Authority money.

Dr. Veras stated that he works on disasters and his staff faces situations like this all the time. It is up to the staff to decide what repairs need to be done and the Board Members do not want to be an obstacle to that. However, the Board has to make sure they agree with the process that is implemented. He added that the proposed amendment to the resolution addresses his concerns.

Chairman Milstein stated that he is sure Mr. Nadratowski and his staff take into account that there are times when an emergency occurs in a location where there was already work being done; the equipment is already there and it makes sense to do the repair for 5 or 10 percent more.

In those types of situations the Chairman believes there should be flexibility to make the emergency repair and do what makes sense; however, staff should be notifying the Board of anything along those lines.

The Board agreed that the amended resolution will state that for emergency repairs of \$2 million or less Mr. Nadratowski can proceed and, he will contemporaneously notify the Board and provide a detailed description of what actions staff has taken. For amounts greater than \$2 million, Mr. Nadratowski must come to the Board for approval before proceeding.

After full discussion, on the motion of Mr. Simberg, seconded by Mr. Conway, without any objections, the Finance Committee approved the amended 2011 Thruway and Canal Contracts Programs and authorized their submission to the Authority and Corporation Boards for consideration.

Adjournment

There being no further business to come before the Finance Committee, on the motion of Mr. Simberg, seconded by Mr. Conway, the meeting was adjourned at 2:32 p.m.

Note: Webcasts, which include dialogue of Authority/Corporation Finance Committee Meeting, are available on the Thruway Authority website 48 hours after such meetings occur and remain on the website for a period of four months.