



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



MINUTES

AUDIT AND FINANCE COMMITTEE MEETING NO. 3

May 16, 2007

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, 12209.

The meeting began at 10:12 a.m.

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

Present:

Chairman John L. Buono, Audit and Finance Committee Member
E. Virgil Conway, Chair, Audit and Finance Committee Member
Frederick Howard, Audit and Finance Committee Member

Absent:

Jeffrey D. Williams, Audit and Finance Committee Member

In addition, there were present the following staff personnel:

Michael R. Fleischer, Executive Director
Daniel Gilbert, Chief of Staff
Kevin Allen, Unit Supervisor, Audit and Management Services
John Brizzell, Federation Liaison
John Bryan, Chief Financial Officer
Michael Flynn, Director, Audit and Management Services
Richard Garrabrant, Syracuse Division Director
William McDonough, Assistant Investment Officer

Sharon O'Connor, General Counsel
Thomas Pericak, Deputy Division Director, Buffalo
Tracie Sandell, Assistant Counsel
Michael Sikule, Director of Investment and Asset Management
Kathy Taylor, Cash Management Analyst
Elizabeth Yanus, Special Assistant

Also in Attendance:

Doron Bar-Levav, Member, Harris Beach PLLC
Stanley Kramer, Partner, Hawkins Delafield & Wood LLP

PUBLIC SESSION

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

Ms. Yanus recorded the minutes as contained herein.

Item 1

Approval of Minutes of Audit Committee Meeting No. 2

After full discussion, on the motion of Mr. Howard, seconded by Chairman Buono, without any objections, the Audit and Finance Committee approved the minutes of Audit Committee meeting No. 2, held March 19, 2007.

Item 2

Approval and authorization to submit to the Authority Board Highway and Bridge Trust Fund Series 2007B Board Item

Mr. Bryan reported that the proposed sale of the Trust Bonds would be the second issuance this year of bonds under this program. A maximum of \$400 million in new money bonds would be used to provide funds to reimburse the state for capital expenditures made to the state's Multi-Year Highway and Bridge Program. In addition, up to \$250 million would be issued to refund outstanding Trust Fund Bonds. Merrill Lynch is the book runner for the

transaction. Upon concurrence of the Audit and Finance Committee, full Board authorization will be sought.

Mr. Howard issued the following statement: “I am the Rensselaer County Engineer. Rensselaer County does not receive Trust Fund Bond Proceeds directly. The Trust Fund Bonds provide reimbursement to the State for various transportation projects. The Authority issues these Bonds solely at the request of the Division of the Budget. The Authority does not make any decisions concerning the use of these proceeds by the State. The State is fully responsible for selecting projects eligible for reimbursement.”

After full discussion, on the motion of Chairman Buono, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized submission of the Highway and Trust Fund Bonds, Series 2007B to the Authority Board following the committee meeting.

Item 3

Approval and authorization to submit to the Authority Board issuance of State Personal Income Tax Revenue Bonds (Transportation) Series 2007A

Mr. Bryan advised that approval to issue bonds pursuant to the State Personal Income Tax Revenue Bonds program is requested to provide funds to reimburse the State for monies provided to municipalities and other project sponsors for capital expenditures made for highway, bridge and multi-modal projects across the state. A maximum of \$400 million may be issued for new money purposes and up to \$250 million may be used for refunding outstanding bonds. Bear Stearns is the anticipated book runner for this transaction. Upon concurrence of the Audit and Finance Committee, full Board authorization will be sought.

Mr. Howard issued the following statement recusing himself from participation in this action. “I am the Rensselaer County Engineer. The Authority issues PIT Bonds solely at the request of the Division of the Budget. From time to time, Rensselaer County does receive PIT Bond Proceeds. The Authority does not make any decisions concerning the use of these proceeds by the State. The State is fully responsible for selecting projects eligible for reimbursement. Following the issuance of the PIT Bonds, the Authority deposits the proceeds into an account and invests the proceeds until a certification is received by the Authority from the New York State Department of Transportation and the New York State Division of the

Budget directing the Authority to pay specific dollar amounts out of the bond proceeds to specific localities and project sponsors. However, I have directed counsel to seek an opinion of the New York State Ethics Commission and I am recusing myself pending receipt of that opinion.”

After full discussion, on the motion of Chairman Buono, seconded by Mr. Conway, without any objections, the Audit and Finance Committee authorized submission of the State Personal Income Tax Revenue Bonds (Transportation) Series 2007A to the Authority Board in July 2007.

Item 4

Discussed an alternative strategy for the Thruway Authority General Revenue Bond Series H to be discussed with the Authority Board following the committee meeting and approved and authorized the issuance of a Request for Proposals (RFP) for counterparties in a planned Thruway Authority General Revenue Bond hedge transaction for 2009

Mr. Bryan initiated a discussion concerning the modification of a previously proposed hedging strategy for the Authority. Instead of hedging \$130 million of a \$360 million bond issuance planned for 2008, staff is now proposing that the Authority: (i) add \$130 million in new money bonds to the bond issuance planned for October of 2007, and (ii) cancel the planned hedge for 2008 and reduce the 2008 bond transaction by \$130 million.

Mr. Bryan stated that the reason for this change is that interest rates are expected to remain relatively flat from now until October, so in effect, the rates that will be on the bonds at the time they are issued will be very similar to those rates found in today's markets. As a result, the Authority will be essentially locking in today's rates on bonds that will be used to fund 2008 highway and bridge projects, which has the same effect as a hedge on the 2008 bonds.

The acceleration of the issuance of bonds into 2007 is possible because federal tax rules allow the Authority to spend-down bond proceeds within two years of issuance. Given the level of capital expenditures anticipated in the Multi-Year Capital Program over the next two years, staff is confident the Authority will be able to spend-down these bond proceeds within the allotted time.

Finally, the revised hedge strategy will include hedging a portion of the 2009 planned bond transaction as originally proposed. Conventional opinion is that rates will be higher in 2009 than they are now, so hedging a portion of the bond issuance planned for 2009 still makes sense. Mr. Bryan requested authorization to proceed with an RFP for counterparties in this transaction.

Mr. Conway expressed support for this strategy citing its reasonableness based on the unique interest rate environment. Chairman Buono expressed concern about the Authority's ability to spend down the funds in the allotted time period. Mr. Bryan assured the Chairman that Mr. Waite was confident that projects could be progressed in the time period. Mr. Kramer responded to Mr. Howard's inquiry as to the consequences of not spending the funds, advising that the government would request the Authority to rebate a portion of the interest earnings, if any on the proceeds.

After full discussion, on the motion of Chairman Buono, seconded by Mr. Howard, without any objections, the Audit and Finance Committee recommended that the revised strategy for the 2007 issuance of Thruway Authority General Revenue Bonds Series H be submitted to the Authority Board for discussion and approved the issuance of an RFP for counterparties in a planned Thruway Authority General Revenue Bond hedge transaction for 2009.

Adjournment

There being no further business to come before the Audit and Finance Committee, on the motion of Chairman Buono, seconded by Mr. Howard, without any objections, the meeting was adjourned at 10:26 a.m.