



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



## **MINUTES**

### **AUDIT AND FINANCE COMMITTEE MEETING NO. 6**

**November 8, 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 and by video conference from the New York State Thruway Authority's Buffalo and New York Division offices, 455 Cayuga Road, Suite 800, Cheektowaga, New York and 4 Executive Boulevard, Suffern, New York, respectively.

The meeting began at 3:05 p.m.

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

**Present:**

E. Virgil Conway, Chair, Audit and Finance Committee via video conference  
Frederick Howard, Audit and Finance Committee Member  
Jeffrey D. Williams, Audit and Finance Committee Member via video conference

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 via video conference  
Wendy Allen, Deputy Chief of Staff  
John Bryan, Chief Financial Officer  
Michael Flynn, Director, Audit and Management Services  
Betsy Graham, Acting Director of Public Affairs  
Katherine McCartney, Deputy Counsel  
Karen Osborn, Office of Fiscal Audit and Budget

Tracie Sandell, Assistant Counsel  
Michael Sikule, Director of Investment and Asset Management  
Dorraine Steele, Director of Fiscal Audit and Budget, via video conference  
Christopher Waite, Chief Engineer  
Jill Warner, Board Administrator

Also in Attendance:

Stanley Kramer, Partner, Hawkins Delafield & Wood LLP, via video conference  
Gerald V. Nielsten, Senior Principal, Stantec Consulting, via video conference  
Bill Kahn, UHY  
Chris Harvey, NYN

## **PUBLIC SESSION**

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

Ms. Warner recorded the minutes as contained herein.

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### **Item 1**

#### **Approval of minutes of Audit and Finance Committee Meeting No. 5**

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee approved the Minutes of Audit and Finance Committee Meeting No. 5, held September 13, 2007.

#### **Presentation to the Audit and Finance Committee by Michael Fleischer, John Bryan and Christopher Waite**

Mr. Fleischer advised the Committee that the series of Items about to be considered relate to the Authority's 2008 calendar year budget, a plan for ensuring financial strength, as well as the 2008 contracts program. Taken together these measures will ensure that the Authority is able to continue to meet its responsibilities of providing customers with a safe and reliable highway system.

The material presented will outline why staff is seeking the Committee's concurrence on a plan that ensured that the Authority will be able to continue to make important investments in the infrastructure, protecting the safety of the highway system while moving forward on the effort to dramatically change the Authority's relationship with customers by providing non-stop tolling for E-ZPass users across the system, and providing real-time traveler information directly to Thruway users within minutes of an incident occurring.

Mr. Waite reported on the 2005-2011 Multi-Year Capital Plan. The program is designed to address several objectives that are critical to the Thruway Authority and its customers; primarily: reliability, customer service, safety and mobility. Seventy-eight percent of the Authority's \$2.74 billion Multi-Year Capital Plan is for capital improvements to the system's highways and bridges. The remainder of the \$2.74 billion is for Thruway equipment and facilities and for the Canal Capital Program. Since the last toll increase, the Authority has averaged \$200 million a year on the Capital Program; in 2007 the Authority spent over \$400 million and it is anticipated that spending for 2008 will climb above \$500 million.

There are over 300 projects in the plan including 520 miles of new and/or rehabilitated highway, with each division receiving close to 100 miles or more of highway rehabilitation based on need. Projects also include 196 new, rehabilitated or improved bridges, 195 new parking spaces for trucks, seven new noise barrier locations, 56 new higher-speed E-ZPass lanes, 13 new highway-speed E-ZPass lanes and six new dedicated E-ZPass lanes.

The Authority has maintenance responsibility for 807 bridges; 131 of those bridges have been replaced since original construction and another 20 will be replaced in the remaining years of the current Multi-Year Capital Plan. The average bridge rating for 2007 was 5.16; however, even with the \$2.1 billion expenditure on highways and bridges in the current Multi-Year Capital Plan, that average rating may slip to 5.07 by 2011. The Authority is also responsible for 2,430 lane miles of pavement, 254 lane miles have been reconstructed since the Thruway was first built, another 152 miles will be reconstructed in the remaining years of the current Multi-Year Capital Plan. The average pavement rating in 2007 was 7.6 and it is expected to remain at that level through 2011.

Mr. Waite stated that one of the objectives of the Capital Plan is safety, and the Authority's safety record is second-to-none among Interstate Highways. There has been a steady

decrease in the number of fatalities per 100 million miles of travel. The current Authority record is .5 fatalities per 100 million miles driven.

Mr. Bryan reported on the projected out-year gaps. Stantec, the Authority's independent traffic engineer, has revised the budget estimates for the remainder of the Multi-Year Financial Plan based on a few factors. Principally is the impact higher fuel prices have had on travel, significantly weakening Authority revenues. Over the past three years there have been larger and more frequent fuel price spikes. The Energy and Information Administration's projection for the balance of 2007 and 2008 show a continuation in the price spikes, volatility and high per-gallon prices at the pump.

The traffic changes on the Thruway because of the volatility of fuel prices is not unique to the Authority, it is a national problem. The national average vehicle miles traveled has been nearly flat since January 2005. This two and one-half year period is the longest period with no growth patterns since statistics were first reported by the Federal Highway Administration in 1981. The Authority estimated traffic growth for 2007 in the range of 2.3 percent. To date, the growth rate is closer to only 0.5 percent and is expected to stay in that range through the end of the year. Those numbers are expected to ramp up to the historical average by 2010.

Compounding the revenue side of the equation is the Authority's increased expenses. There have been increasing pressures placed on the Authority's budget including the rising costs of steel, salt, cement, fuel and insurance. The combination of these factors causes three concerns for the Authority: operational deficits, debt service coverage ratios that are near or below 1.5, and pay-as-you-go financing drops into the teens.

Mr. Fleischer reported on Authority goals, which were established by the Audit and Finance Committee:

- Preserve the \$2.7 billion Multi-Year Capital Plan, ensuring that the Authority continues to have the necessary resources to properly maintain the Thruway at high levels of safety and service
- Eliminate any anticipated out-year operational gaps
- Maintain debt service coverage ratios of at least 1.7 in 2011
- Increase pay-as-you-go financing of the Capital Program to at least 30 percent by 2011

➤ Preserve the Commercial Volume Discount Program and the Commuter Discount Program

Staff is proposing measures to address the goals of the Committee and maintain high levels of safety and service and continued strong financial performance. These measures include continued cost containment, further staff reductions, enhanced real property revenue and a toll adjustment.

The Authority has reduced its full-time staffing by 456 positions from 1995 to 2007. The 2008 budget includes the elimination of an additional 10 positions, with the elimination of an additional 10 positions annually through 2011, resulting in savings in the Authority's operating budget. Growth in Thruway and Canal operating expenditures throughout the Multi-Year Capital Plan will be limited. Growth in the proposed 2008 budget is limited to 3.1 percent.

The Authority has recently acquired the services of a real estate management firm to address its real property policies and procedures. Through better management of its real estate, the Authority hopes to realize revenue that is available by increasing sales and leasing of surplus land at fair market values with reduced transaction times.

Mr. Fleischer reported that these measures alone will not enable the Authority to continue to provide services at its present level. As a result, included with these measures is a proposed toll adjustment, where E-ZPass discounts will go to 5 percent off the cash rates for both passenger and commercial vehicles in June 2008 and will remain at that rate throughout the Multi-Year Capital Plan. The proposal also includes a 5 percent general toll increase in January 2009, as well as an additional 5 percent increase in January 2010. There will only be one increase implemented at the barriers and bridges in 2009 due to the cash rounding issues. The Grand Island resident rates will remain the same as they are today. Staff will also look into increasing congestion pricing at the Tappan Zee Bridge and Spring Valley in 2010.

The fee for mainline commuters under the E-ZPass Annual Permit Program would increase from \$80 to \$84 in 2009 and from \$84 to \$88 dollars in 2010. The permit plan has been \$80 since 1988. The bridge and barrier commuter discount plan rates would increase by 5 percent in 2009 and 2010, except at Grand Island where the residents will see no increase. Commuters enrolled in the E-ZPass Tappan Zee Bridge Commuter Program will retain the \$2.00 per trip discount. The Authority's Green Pass Program will continue to provide a 10 percent additional E-ZPass discount for vehicles with high fuel efficiency and ultra low emissions. The

existing Commercial Volume Discount Program will also be preserved. The State currently has a study underway regarding congestion pricing, especially in the downstate area; once the State concludes its findings, staff will report back to the Committee with a policy for moving forward with congestion pricing.

With regard to the impact of the proposed toll adjustment, Mr. Fleischer stated that if the cash rate for passenger vehicles increased by the rate of inflation, it would increase from 3.1 cents per mile in 1988 to 5.5 cents per mile in 2011. By the end of the proposed toll adjustment plan in 2011, the cash rate will be 4.7 cents per mile. Inflation, as measured by the Consumer Price Index, is expected to increase by approximately 73 percent from 1988 to 2011, compared to a 52 percent increase in tolls for a cash paying customer over the same period of time. Even after the increase is implemented, the Thruway will remain among the three least costly toll roads (for passenger vehicles) in the nation, and that's assuming that Authority rates are the only ones to go up. The Thruway is also very competitive with national toll facilities when comparing commercial toll rates.

The end result of the proposed adjustment is meeting the Audit and Finance Committee's goals of limiting the out-year deficits, improving the debt service coverage ratio, improving the pay-as-you-go financing and allowing Mr. Waite and the engineering and maintenance staff to continue to deliver and to continue to make the proper investments in the Authority's \$2.1 billion Highway and Bridge Plan.

Stantec has preliminarily looked at the proposed toll adjustment plan and concluded that development and implementation of the Authority's Multi-Year Capital Program and its ongoing maintenance operations will ensure that the operational and structural integrity of Authority facilities will be maintained. Stantec confirmed that the actions proposed by staff are estimated to result in the preservation of the \$2.7 billion Multi-Year Capital Plan, elimination of operational deficits, increases in the debt service coverage ratio and increases in the pay-as-you-go financing.

If the Audit and Finance Committee makes the recommendation to go forward with the toll adjustment process and the Board approves that recommendation, staff will commence the public process which includes submission of financial reports to the Governor, State Comptroller and Legislative Fiscal Committees in accordance with Section 2804 of the Public Authorities Law; submission of proposed regulations for filing and public comment in accordance with the

requirements of the State Administrative Procedure Act; the holding of a minimum of three public hearings statewide; preparation of an environmental review in accordance with the State Environmental Quality Review Act (SEQRA) and assessment of public comment; and final Board approval of the toll adjustment, adoption of SEQRA findings and filing of a Notice of Adoption in the State Register.

This first step will allow the Authority to continue a dialogue with its customers and the people of New York State about what the Authority is doing to ensure that the roads and bridges are safe and their trips remain safe.

Mr. Bryan presented the Committee with the 2007 revised financial plan and the 2008 proposed budget. The 2007 revenues have been reduced due to increased gas prices and a decrease in Thruway traffic. By the end of December, staff estimates that the 2007 Budget will total \$977.4 million, that's an increase of \$215.2 million or 28 percent over 2006 (90 percent of that increase is directly related to the Capital Program). On the operating side, staff estimates a \$17 million or 4.4 percent increase in 2007. After accounting for mandated increases in health insurance, fuel prices and snow and ice removal, discretionary spending declined from 2006, a reflection of successful cost containment measures taken at the Authority. Due to an increase in the use of prior reserve balances, bond proceeds and State reimbursement for I-84 expenses, there was an increase in other revenue of \$228.6 million or 135.9 percent from 2006.

Thruway revenues have decreased by \$13.4 million or 2.3 percent from 2006, principally due to the impact of high gas prices on traffic and toll collections, as well as the discontinuation of toll collection at the Black Rock and City Line Barriers.

The 2008 budget is anticipated to total \$1.1 billion, an increase of 15 percent over the 2007 revised budget. A substantial portion of the increase is again related to growth of the Capital Program. The Capital Program will increase by \$106.5 million next year, making it one of the largest annual highway and bridge investments in Thruway history. Operating expenses will increase by 3.1 percent in 2008. After adjusting for mandated cost increases in health insurance, salaries, fuel prices and funds for the Diesel Fuel Emission legislation, operating expenses on the discretionary side are expected to grow by less than 1 percent from 2007.

Thruway revenue is expected to increase by \$52 million or 9 percent over the 2007 revised budget due to the already approved 10 percent toll increase in January 2008 and the proposed reduced E-ZPass discounts in June 2008.

Mr. Waite reported that the total budget for the 2008 proposed Capital Program is \$545.4 million, of which 77 percent comes from bond proceeds, 1 percent from state bond act proceeds, 4 percent from Federal Aid, 2.5 percent from state and local funds and 14.5 percent from Thruway revenues. On the spending side, \$432 million or 79 percent will be spent on highway and bridge replacement or rehabilitation. The Canal Corporation will receive approximately 10 percent of the expenditure, with equipment and facilities receiving an additional 11 percent. Projects of interest that will be worked on or started in 2008 include additional steel repairs to the Tappan Zee Bridge (the east deck truss and the causeway), continued work at Newburgh Interchange 17, and the beginning of Phase 2 of the Woodbury toll barrier highway speed E-ZPass project. The Authority will also begin to reconstruct Exits 39 and 40 in the Syracuse Division, a project well in excess of \$100 million. In Buffalo, the Authority will begin an Intelligent Transportation Systems project with DOT for approximately \$11 million, and the redecking project of the Grand Island Bridges for \$32 million.

## **Item 2**

### **Review and Approve Proposed Multi-Year Financial Plan for Board Action**

Mr. Williams inquired as to whether or not the Authority had hired a Federal lobbyist. Mr. Fleischer responded that Authority staff is working with the Governor's Washington office to help in the acquisition of Federal funds. Mr. Williams stated that the Federal monies seem low, to which Mr. Fleischer replied that the Authority got a late start in 2007 in attempting to acquire funding but will start earlier in 2008 to request funds for high priority projects and the Canal. Mr. Fleischer said the Governor's office had been very helpful in setting up meetings and discussing strategies with Authority staff.

After full discussion, on the motion of Mr. Conway, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized the submission of the Proposed Multi-Year Financial Plan to the Authority Board for consideration.

### **Item 3**

#### **Review and Approve Revised 2007 Financial Plan and 2008 Thruway Budget for Board Action**

After full discussion, on the motion of Mr. Howard, seconded by Mr. Williams, without any objections, the Audit and Finance Committee authorized the submission of the Revised 2007 Financial Plan and 2008 Thruway Budget to the Authority Board for consideration.

### **Item 4**

#### **Review and Approve 2008 Canal Budget for Board Action**

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized the submission of the 2008 Canal Budget to the Corporation Board for consideration.

### **Item 5**

#### **Review and Approve 2008 Thruway Contracts Program for Board Action**

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized the submission of the 2008 Thruway Contracts Program to the Authority Board for consideration.

### **Item 6**

#### **Review and Approve 2008 Canal Contracts Program for Board Action**

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized the submission of the 2008 Canal Contracts Program to the Corporation Board for consideration.

### **Item 7**

#### **Review and Approve Local Highway and Bridge Service Contract (CHIPS) Refunding Bonds, Series 2008 Not to Exceed \$300 Million for Board Action**

Mr. Bryan requested the Committee's approval to advance to the full Board the adoption of the Sixteenth Supplemental Bond Resolution authorizing the issuance of CHIPS Refunding Bonds in an amount not to exceed \$300,000,000. The Public Authorities Law authorizes the Authority to issue tax exempt bonds to fund projects under the State's CHIPS Program.

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized the submission of the Local Highway and Bridge Service Contract (CHIPS) Refunding Bonds, Series 2008 to the Authority Board for consideration.

### **Item 8**

#### **Review and Approve the Designation of a Pool of Qualified Investment Banking Firms to Serve as Swap Counterparties for a Potential Forward Starting Swap in Connection with the Issuance of 2009 General Revenue Bonds**

Mr. Bryan requested the Committee's approval to advance to the full Board the designation of a pool of firms from which counterparties will be selected for a potential forward starting swap in connection with the issuance of the Authority's General Revenue Bonds, scheduled to take place in 2009. Mr. Williams asked if there were any firms not selected to participate. Mr. Bryan replied that the Authority distributed the RFP to 50 firms and placed a notice in the *Bond Buyer*. The Authority received 15 proposals in response. Of that 15, the top three were selected to serve in this pool. Mr. Conway voiced his support for the three firms selected.

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee authorized submission of the Designation of a Pool of Qualified Investment Banking Firms to Serve as Swap Counterparties for a Potential Forward Starting Swap in Connection with the Issuance of 2009 General Revenue Bonds to the Authority Board for consideration.

### **Item 9**

#### **Review and Approve Scope of Services for the 2007 Financial Statement Audit, Concessions Review and Single Audit to be Performed by UHY, LLP**

Mr. Flynn introduced Bill Kahn, a partner of UHY, to discuss the scope of services. Mr. Kahn stated that the 2007 audit objectives for the Authority were similar to past years. Mr. Conway inquired as to whether there were any specific changes to those objectives. Mr. Kahn responded that there were not.

After full discussion, on the motion of Mr. Williams, seconded by Mr. Conway, without any objections, the Audit and Finance Committee approved the Scope of Services for the 2007 Financial Statement Audit, Concessions Review and Single Audit to be Performed by UHY, LLP.

### **Item 10**

#### **Review and Accept the Following**

- a. 2006 UHY Concessionaire Report**
- b. Periodic Reports Submitted to the Office of the State Inspector General**

Mr. Flynn initiated a discussion of internal and external reports presented to the Committee for review only at this meeting. These items included periodic reports prepared for the New York State Office of the Inspector General and the 2006 UHY Concessionaire Report. Mr. Williams inquired if there was anything out of the ordinary in the findings, to which Mr. Flynn reported that the findings were routine.

After full discussion, on the motion of Mr. Howard, seconded by Mr. Williams, without any objections, the Audit and Finance Committee accepted the reports.

## **Item 11**

**Review and Discuss, as Necessary, the Following Items**

- a. Summary of Significant Audit Recommendations &/or Recent or Proposed Changes to Significant Accounting Policy or Procedures**
- b. Audits by the Office of the State Comptroller**
- c. Committee/Board Member Training Opportunities**
- d. Audit and Finance Committee 2008 Draft Work Plan**

Mr. Flynn requested acceptance of periodic reports.

After full discussion, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the Audit and Finance Committee accepted the reports.

## **Adjournment**

There being no further business to come before the Audit and Finance Committee, on the motion of Mr. Williams, seconded by Mr. Howard, without any objections, the meeting was adjourned at 3:45 p.m.