



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



MINUTES

FINANCE COMMITTEE MEETING NO. 3

November 17, 2010

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. The meeting began at 10:00 a.m.

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

Present:

Chairman John L. Buono, ex officio Finance Committee Member
E. Virgil Conway, Finance Committee Member
J. Donald Rice, Jr., Finance Committee Member
Richard N. Simberg, Finance Committee Member

In addition, there were present the following staff personnel:

Michael Fleischer, Executive Director
Wendy Allen, Director, Office of Management and Planning
John Bryan, Chief Financial Officer
William Estes, General Counsel
Richard Garrabrant, Division Director, Syracuse Division
Jonathan Gunther, Assistant Counsel
J. Marc Hannibal, Director, Audit and Management Services
Harry Lennon, Senior Investigator
Carmella Mantello, Director of Canal Corporation
Ted Nadratowski, Acting Chief Engineer
Karen Osborn, Budget Manager, Office of Fiscal Audit and Budget
Tracie Sandell, Assistant Director, Audit and Management Services
Catherine Sheridan, Acting Deputy Director for Canal Maintenance, Operations and Engineering
Michael Sikule, Director, Office of Investments and Asset Management

Dorraine Steele, Director, Office of Fiscal Audit and Budget
Elizabeth Yanus, Special Assistant

Also in Attendance:

John Armstrong, Television Engineer, New York Network
Doron BarLevav, Harris Beach, PLLC
Eric Taylor, Harris Beach, PLLC

PUBLIC SESSION

Mr. Conway, Committee Chair, called the meeting of the Finance Committee to order.

Ms. Yanus recorded the minutes as contained herein.

Item 1

Approval of Minutes of Finance Committee Meeting No. 2

After full discussion, at the recommendation of Mr. Rice, seconded by Mr. Simberg, without any objections, the Finance Committee approved the minutes of Finance Committee Meeting No. 2, held September 22, 2010.

Item 2

Review and Approve Report of Investments for the Quarter Ending September 30, 2010 for Submission to the Board

Mr. Bryan requested the Committee approve for advancement to the Board the investment report for the third quarter of the year. Guidelines established by the Office of the State Comptroller require that the Authority provides a quarterly report on all investments that it has made during that period. The report details, by fund, the investments made and the yield obtained for each item. In the third quarter of 2010, the Authority made just over \$1.8 billion in investments, earning an average yield of 0.19 percent. At the end of October, a one-month certificate of deposit earned 0.27 percent, a one-month piece of commercial paper earned 0.2 percent and a four-week treasury earned 0.14 percent. At the end of September, the Authority had \$775.1 million invested in a variety of instruments that are authorized under the Authority's governing

statute and its Board-adopted investment policy. Of the Authority's total investments at the end of September, 63 percent was invested in federal agencies, 29 percent in commercial paper, 5 percent in treasuries, 2 percent in repurchase agreements and 2 percent in various certificates of deposit. A majority of these investments are done with bond proceeds that are held in the construction fund and reserve maintenance fund for equipment and facilities and require debt service reserves.

After full discussion, on the motion of Mr. Simberg, without any objections, the Finance Committee approved the Report of Investments for the Quarter Ending September 30, 2010 and authorized its submission to the Authority Board for consideration.

Item 3

Review and Approve Revised 2010 Financial Plan and 2011 Thruway Budget for Board Action

In advance of his presentation, Mr. Bryan advised that this item and the subsequent item would be presented as one, although separate votes would be necessary.

Mr. Bryan requested the Committee approve for advancement to the Board the Authority's revised 2010 Financial Plan, the Proposed 2011 Budget and the Revised Multi-Year Financial Plan. As with the 2010 Budget that was originally adopted by the Board in November of 2009, the Revised 2010 Financial Plan includes the revenues, expenses and fund deposit adjustments that are necessary to result in a balanced budget for the year. The impact that slow and deliberate national economic growth has had on passenger and commercial traffic throughout this year has constrained revenue growth. However, the continuation of operating expense reductions, particularly the extension of strict hiring controls and other actions that have been put in place over the past four years, as well as the impact of the Early Retirement Incentive Program, will allow the Authority to remain in good financial health through the end of 2010. The Proposed 2011 Budget is based on the assumption that a slightly stronger economic recovery will occur that will allow traffic and revenues to show some better, albeit small, growth. In addition, the Authority expects federal aid that is allocated to the Thruway to continue to remain extremely low – representing less than 0.5 percent of the total budget. To meet the challenges

brought about by lack of federal aid and low traffic growth, the Proposed 2011 Budget includes a continuation of ongoing strict hiring controls and other enhanced cost containment measures. Last week the Authority's Executive Director reissued an Executive Instruction that reaffirmed that the Authority's cost containment program will extend through 2011. The Proposed 2011 Budget also includes the elimination of 170 full-time, permanent positions, 89 of which were vacated as a result of the transfer of I-84 to the New York State Department of Transportation last month and an additional 81 that were made vacant (and will be unfunded and eliminated) as a result of the Early Retirement Incentive Program. As a result of these staffing reductions, full-time, permanent staffing at the Authority has been reduced by 714 positions since 1995, representing a decline of 17 percent. As a result, the Authority anticipates the total combined operating budget for the Canal and Thruway to grow by 3.5 percent. However, if an adjustment is made for mandated, non-discretionary costs, such as pension obligations and insurance requirements, the Canal and the Thruway budgets are expected to only increase by .7 percent. As noted in the Budget Book in supplemental charts and memos, an increase in Capital Program expenses estimated for 2011 make up the lion's share of the growth in the overall Authority's budget. There are a number of important capital projects that will be funded with cash next year that are designed to maintain the Authority's roads and bridges in good condition, expand capacity and reduce congestion, including:

- Continuation of additional deck replacement and other repairs on the Tappan Zee Bridge (around \$150 million);
- Rehabilitation of pavement between Exit 17 and Exit 18 in the New York Division (around \$30 million);
- Pavement reconstruction and capacity improvements between Exit 23 and 24 (around \$115 million);
- Pavement reconstruction and rehabilitation of 11 bridges between Exit 37 and Exit 39 in the Syracuse Division (\$70 million);
- Pavement reconstruction between Exit 47 through to the west side of Batavia in the Buffalo Division (\$150 million); and
- Deck rehabilitation of the South Grand Island Bridges (\$21 million).

The Multi-Year Financial Plan illustrates that balanced budgets are anticipated for 2010 and 2011 and no cash deficits are expected. Debt service coverage is expected to remain above the levels established in the Authority's Fiscal Management Guidelines (1.5 times coverage) and bond resolution (1.2 times coverage) in 2010 and 2011 offering a good opportunity for the Authority to preserve its current high, "A" grade credit rating. No reductions in the Multi-Year Capital Program are required to retain a balanced financial plan. The Authority will continue to provide safe and efficient transportation services and maintain its pledge to invest whatever is necessary to maintain its infrastructure. There are nearly \$600 million in lettings scheduled from now until the end of 2011. Significant cash resources will be available, allowing pay-as-you-go financing of the Multi-Year Capital Program to remain around 20 percent in 2010 and 2011.

Mr. Simberg requested that a plan be developed for future budgets that include goals for future spending based on pay-as-you go, and reflects the relationship between net and physical assets. Mr. Bryan noted that the Authority's independent traffic engineer and financial advisor are conducting a study that is examining various Capital Program scenarios for the next 15 to 20 years, ranging from maintaining to rebuilding, that include pay-as-you-go metric variations. This report is expected to be completed next month and will be made available to the Board.

Mr. Rice asked how the Authority's 20 percent self-funding capital expenditure ratio compares with other toll roads and rating agencies guidelines. Mr. Bryan did not have definitive metrics for the rating agencies, as this information is not provided in exact measures, but would request it. He surmised that all comparable toll agencies are experiencing similar revenue problems due to the recession based on a report of toll facilities published by the Federal Highway Administration. He offered to obtain this information as well.

After full discussion, on the motion of Mr. Rice, seconded by Mr. Simberg, without any objections, the Finance Committee approved the Revised 2010 Financial Plan and 2011 Thruway Budget and authorized its submission to the Authority Board for consideration.

Item 4

Review and Approve 2011 Canal Budget for Board Action

After full discussion, on the motion of Mr. Rice, seconded by Mr. Simberg, without any objections, the Finance Committee approved the 2011 Canal Budget and authorized its submission to the Corporation Board for consideration.

Item 5

Review and Approve the Re-Designation of Underwriting Firms to Serve as Senior Managers for Authority Bond Sales and Authorize the Executive Director to Enter into Contract Amendments with the Re-Designated Firms for Underwriting Services

Mr. Bryan requested the Committee approve for advancement to the Board a resolution that would increase the Authority's senior pool of underwriters for bond sales by four firms. Working within the framework and guidelines established by the Governor's Executive Order 10 Task Force, last year the Authority issued a Request for Proposals (RFP) seeking firms to serve as underwriters for the Authority's General Revenue bond transactions and bond transactions the Authority undertakes on behalf of the State. Last January, the Board approved the selection of 11 firms to serve in the Senior Manager pool (where Bookrunners and Co-Senior Underwriters are selected from) and 13 firms to serve in the Co-Manager pool. These investment banking firms serve in the respective pools on an as-needed and non-exclusive basis and the current agreements expire on December 31, 2011 with two options to extend each for six months. This resolution seeks to increase the number of firms in the senior underwriting pool from 11 to 15 by adding 4 firms that had the next highest score on last year's RFP. The following four firms that would be moved up currently serve in the Co-Manager pool: Loop Capital Markets; Samuel Ramirez and Company; Siebert Brandford Shank and Co.; and Stifel, Nicholas and Company.

Mr. Conway commended this action.

After full discussion, on the motion of Mr. Simberg, seconded by Mr. Rice, without any objections, the Finance Committee approved for submission to the Authority Board the re-designation of underwriting firms to serve as Senior Managers for Authority bond sales.

Item 6

Review and Approve 2011 Thruway Contracts Program for Board Action

Mr. Nadratowski requested the Committee approve for advancement to the Board the Authority's 2011 Contracts Program for the rehabilitation and reconstruction of highway and bridge facilities, intelligent transportation systems projects and architectural projects. The 2011 Program was developed in conjunction with the 2011 Authority Budget with an estimated cash flow in 2011 of \$384,290,298. This amount includes the cost of construction contracts, contingencies and engineering. Substantial work will be progressed under this Contracts Program. The Program will be funded using a combination of Thruway Revenues, bond proceeds, federal aid, State and other funds. In order to administer the 2011 Contracts Program and expedite the awarding of contracts, this resolution authorizes the Executive Director, Chief Engineer, and Chief Financial Officer to take various actions as outlined in the resolution for this item. The authorizations provided for in the 2011 resolution are the same as those provided in the 2010 Program resolution.

Referencing a recent tour of the Tappan Zee Bridge, Chairman Buono asked if the gusset plates he had seen were those that had failed on the bridge in Minneapolis, Minnesota and necessitated the repair project listed in the 2011 Contracts Program letting schedule. Mr. Nadratowski responded affirmatively, explaining that gusset plates, with bolts and rivets, are used to connect major members of steel.

After full discussion, on the motion of Mr. Simberg, seconded by Mr. Rice, without any objections, the Finance Committee approved the 2011 Thruway Contracts Program and authorized its submission to the Authority Board for consideration.

Item 7

Review and Approve 2011 Canal Contracts Program for Board Action

Mr. Nadratowski requested the Committee approve for advancement to the Board the Canal Corporation's 2011 Contracts Program for the rehabilitation and reconstruction of Canal facilities and the revitalization program. The 2011 Program was developed in conjunction with

the 2011 Canal Corporation Budget with an estimated 2011 cash flow of \$24,465,274. This amount includes the cost of construction contracts, contingencies and engineering. Several of the larger projects in the proposed program include a \$13.2 million contract to rehabilitate the Utica Taintor Gate and Dam in Oneida County in the Syracuse Division, and \$1.4 million to repair seven Erie Canal culverts in Orleans County in the Buffalo Division. This Program will be funded using a combination of Thruway Revenues and 2005 Transportation Bond Act funds. In order to administer the 2011 Contracts Program and expedite the awarding of contracts, this Board resolution authorizes the Executive Director, Chief Engineer, and Chief Financial Officer to take various actions as outlined in the resolution for this item. The authorizations provided for in the 2011 resolution are the same as those in the 2010 Contracts Program item. The resolution indicates that federal aid will be used; however, no federal aid has been identified for the 2011 Contracts Program.

Relative to the itemized risk assessments of the Contracts Program projects, Chairman Buono requested that an additional category of risk assessment be included that defines the priority/importance of projects in terms of safety.

Mr. Simberg requested clarification of the use of Canal bond monies. It was his understanding that these funds were used for projects such as bike trails and that toll revenue funded infrastructure projects. Mr. Fleischer explained that the Bond Act is State bond money, not Canal bond money. The Authority requested the Division of the Budget reallocate these funds to other infrastructure projects.

After full discussion, on the motion of Mr. Rice, seconded by Mr. Simberg, without any objections, the Finance Committee approved the 2011 Canal Contracts Program and authorized its submission to the Corporation Board for consideration.

Other Business

Mr. Simberg noted that he had received a list of projects in association with the budget process in the spring that was expected to distinguish the proposed costs for the Tappan Zee Bridge as a

separate category. He requested staff prepare a simpler version than the one provided to the Tappan Zee Bridge Committee that segregates funding for the Environmental Impact Statement work, gusset plate repair project, legal consulting fees, etc. to be included in the general budget process as a means to monitor budgetary consequences. Mr. Bryan offered to provide this information.

Adjournment

There being no further business to come before the Finance Committee, on the motion of Mr. Simberg, seconded by Mr. Rice, the meeting was adjourned at 10:28 a.m.