NEW YORK STATE THRUWAY AUTHORITY
NEW YORK STATE CANAL CORPORATION

MINUTES

FINANCE COMMITTEE MEETING NO. 5

March 23, 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. The meeting began at 10:55 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 Chair
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
Jonathan Gunther, Assistant Counsel
J. Marc Hannibal, Director, Audit and Management Services
Harry Lennon, Senior Investigator
Tracie Sandell, Assistant Director, Audit and Management Services
Michael Sikule, Director, Office of Investments and Asset Management
Jill B. Warner, Board Administrator
David Malone, Director, Accounting and Disbursements
Dorraine Steele, Director, Fiscal Audit and Budget

Also in Attendance:
Karl Diehl, New York Network
Douglas Zimmerman, Director, Toski, Schaefer & Co., P.C.
David Spara, Director, Toski, Schaefer & Co., P.C.

PUBLIC SESSION

Mr. Conway, Committee Chair, called the meeting of the Finance Committee to order.
Ms. Warner recorded the minutes as contained herein.

<u>Item 1</u>
Approval of Minutes of Finance Committee Meeting No. 4

After full discussion, at the recommendation of Mr. Simberg, seconded by Mr. Conway, without any objections, the Finance Committee approved the minutes of Finance Committee No. 4, held January 19, 2011.

<u>Item 2</u>
Review and Approve the Authority's Annual Investment Report

Mr. Bryan stated that the Public Authorities Law requires that the Authority prepare, approve and submit this report to the Division of the Budget every year. It includes the Authority's policies for making investments, results of the independent audit, investment and investment income information and information on fees charged by firms rendering investment services to the Authority.

In this item, two changes to the Investment Policy are recommended. First, staff recommends that the cap on the number of firms that can be solicited for a bid on an investment be removed. The current policy allows for between four and seven firms to be selected. Staff would like to remove the cap so that for each investment, staff can solicit more than seven firms. Second, staff recommends that the list of employee titles authorized to make investments on the Authority's behalf be changed. Staff recently reclassified a number of existing employees from general accounting titles into an investment officer series of titles that are more widely used in the state and more appropriately reflect the type of work that these individuals perform.

The Authority's toll revenues, construction funds, debt service funds, and all investments are made pursuant to this Policy. Per the Policy, Authority funds are authorized to be invested in obligations of, or guaranteed by, the United States of America, agencies of the Federal government, commercial paper holding the highest ratings, time deposits and repurchase agreements. The types of securities staff can invest in are all very safe and reflect an ongoing conservative approach to investing. The Authority generally purchases shorter term investments, as funds are usually needed in less than a year and in many cases within 30 days. The Authority makes investments through a competitive bidding process and no fees or commissions are paid to the broker/dealers for these investments. At the end of 2010 the Authority had 70 percent of its funds invested in Federal agencies, 20 percent in commercial paper, and the rest in CDs and repurchase agreements.

The amount of funds available for investment varies from year to year, depending on balances in the Authority's construction fund. In 2010 the Authority made over 800 investments totaling \$6.8 billion, down from the \$6.8 billion made in 2009. Earnings rates are highly dependent on market conditions. Four years ago the Authority was earning an average yield of 5.1 percent while in 2010 the Authority earned an average yield of .21 percent.

Mr. Simberg asked if five years ago when staff was doing this versus now in that split between the Federal CDs and other financial instruments, those percentages changed much. Mr. Bryan responded that the Authority invested in less commercial paper back then. The treasury securities staff bought were much more attractive and had much better yields than now. Today the Authority is putting much more money into commercial paper, because it offers a better rate.

Mr. Rice inquired as to the credit criteria for the commercial banks from which the Authority buys its CDs. Mr. Sikule responded that the Authority gets very few CDs adding that, for the most part, it deals almost exclusively with commercial paper and Federal agencies. From time to time, the Authority may invest in a CD and staff looks for banks that have the highest ratings and where everything is fully collateralized.

After full discussion, on the motion of Mr. Rice, seconded by Mr. Simberg, the Finance Committee approved the Authority's Annual Investment Report and authorized its submission to the Authority Board for consideration.

Item 3

Review and Approve the Financial Reports for December 2010 and January 2011

Mr. Bryan reported that last year the Authority saw the beginning of a slow and protracted recovery period from a recession that had a significant impact on traffic and toll collections in prior years. For 2010, traffic increased by 0.4 percent which was exactly the level predicted in the original 2010 Budget by the Authority's independent traffic engineering consultant. As a result, toll collections for the year came in essentially at the level that was predicted by the traffic engineer.

However, the makeup of the traffic growth was different than what was predicted. In 2010, passenger traffic increased by 0.1 percent and commercial traffic increased by 2.4 percent where the 2010 original Budget predicted that passenger and commercial traffic would grow essentially at the same rate (approximately 1.5 percent). Commercial traffic was heavier than expected and passenger traffic was lighter than estimated; however, the amount of toll revenue the Authority collected was essentially on target to the original 2010 Budget estimate.

Overall, under the Authority's 2010 original Budget, the Authority expected to spend just over $1.1 billion towards its operating and capital needs. However, actual operating and capital expenses were $1.0 billion, which is 9.0 percent or $101.2 million below the level estimated in the 2010 original Budget. The three main reasons this happened were: the financial needs of the Capital Program were down about $108 million or 22 percent, generally because staff received significant bid savings on projects that were let throughout the year. There were a few letting delays and some slower than expected progress on a couple of projects. The second main factor was that the operating expenses for the Thruway and the Canal combined were 2.2 percent or

$14.5 million less than what estimated in the original Budget despite growth in areas such as pension contribution and insurance rates. The Authority ended up below the budget principally due to ongoing cost containment, as well as the implementation of the early retirement incentive program that ultimately will allow the Authority to reduce its headcount by 170 positions. And finally, because of reduced capital and operating needs staff was able to add $21 million to the Authority's working capital. Enhancing the Authority's working capital helps staff insure that operations can continue in stressful periods and insures that the Authority has enough cash to meet its payroll demands, pay suppliers, vendors and contractors on time. These factors resulted in a net cash need of $101.1 million last year. The situation could never have been this good if staff did not have the Board's support of the Authority's cost containment goals.

It is important to note that because Canal and Thruway operating expenses were well below budget, the growth in such expenses over 2009 was very small. Compared to 2009, Canal and Thruway operating expenses increased by only 0.6 percent after adjusting for the early transfer of I-84 back to DOT. This low growth follows an increase of only 1.9 percent in 2009 and a 1.3 percent decline in 2008, showing that cost containment is working well here and that the Authority is becoming more efficient in delivering services to its patrons.

In January, revenues and expenses were just a little off target. January's financials tend to be heavily influenced by weather conditions and its impact on snow and ice control costs, traffic and revenues. This past January had an abundance of large weather events statewide that affected travel and costs throughout the system. As a result, while overall operating expenses were on target, revenues were down quite a bit. The resources committed to working capital ensured the Authority was able to weather this difficult month.

After full discussion, on the motion of Mr. Rice, seconded by Mr. Simberg, without any objections, the Finance Committee approved the Financial Reports for December 2010 and January 2011 and authorized their submission to the Authority Board for consideration.

Adjournment

There being no further business to come before the Finance Committee, on the motion of Chairman Buono, seconded by Mr. Simberg, the meeting was adjourned at 11:05 a.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 4 months.