NEW YORK STATE THRUWAY AUTHORITY
NEW YORK STATE CANAL CORPORATION

MINUTES

AUDIT AND FINANCE COMMITTEE MEETING NO. 9

April 25, 2008

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. The meeting began at 9:35 a.m.

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

Present:
Chairman John L. Buono, ex officio Audit and Finance Committee Member
E. Virgil Conway, Chair, Audit and Finance Committee
Frederick Howard, Audit and Finance Committee Member
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, Acting Director, Audit and Management Services
Wendy Allen, Deputy Chief of Staff
Betsy Graham, Acting Director of Public Affairs
John Bryan, Chief Financial Officer
Michael Sikule, Director of Investment and Asset Management
Jill Warner, Board Administrator
Sharon O'Conor, General Counsel
Richard Garrabrant, Division Director, Syracuse Division
Thomas Pericak, Division Director, Buffalo Division
Liz Yanus, Office Manager, Office of the Deputy Chief of Staff
Tracie Sandell, Assistant Counsel

Also in Attendance:

Stanley Kramer, Hawkins Delafield & Wood
Angela Rodell, Senior Vice President, First Southwest
Pat Reale, Principal Budget Examiner, NYS Division of Budget
Josh Boose, Reporter, WGRZ
Bob Marcuso, Cameraman, WGRZ
John Armstrong, Production Coordinator, New York Network
Cathy Woodruff, Reporter, *Albany Times Union*

PUBLIC SESSION

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

Ms. Warner recorded the minutes as contained herein.

Item 1

Approval of Minutes of Audit and Finance Committee Meeting No. 8

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 and Finance Committee Meeting No. 8, held March 19, 2008.

Item 2

Review and Approve the Proposed Revenue Adjustment for Board Action

Mr. Fleischer contrasted the Authority's current and projected financial conditions utilizing a PowerPoint presentation to highlight the activities that have occurred since the Board last acted on the proposed toll revenue adjustment.

The Authority strives to maintain and operate the highway in safe condition; implement a capital improvement program to deliver high levels of safety and service; and improve the travelers' experience. The Authority is achieving the Board's directive to maintain a safe highway. Continuous safety improvements and the dedication of New York State Police Troop T can be credited for the Thruway being recognized as one of the safest highways in the nation with a very low fatality rate. The Authority is responsible for maintaining in good condition 807 bridges, most of which are the original bridges, and nearly 2,500 lane miles. The Authority has spent more than $1 billion since 1991 on non-Thruway expenses, primarily to operate the Canal System, which has an estimated $80 million annual budget impact. The Authority is funded as a user-fee system. At the direction of the Board and the State Comptroller, the Authority has pursued obtaining additional funding from external sources. Recent efforts have proven unsuccessful, however. The Authority's attempts to renew an agreement with the New York State Department of Transportation (NYSDOT) to obtain funds for the Thruway's share of interstate mileage it contributed to the overall State's interstate mileage formula have been futile. Pursuant to this agreement, which expired in 2005, the Authority received approximately $30 million annually. The recently adopted State budget does not provide additional federal funds to the Authority, nor are funds allocated to the Authority in the NYSDOT's multi-year plan for transportation through 2014. Without a new agreement, the Authority cannot account for this funding in its financial models. Further, the Authority does not receive State aid from the Dedicated Highway and Bridge Program. The small amount of federal aid that is received for the Canal does not cover its $80 million annual operating costs which are funded by Thruway toll revenues. Since the State has not taken action to transfer the Canal System in its 2008 budget, its maintenance and operation remains the Authority's financial responsibility. Mr. Howard asked if the Authority has federal earmarks in its budget, to which Mr. Fleischer responded affirmatively, advising that a small amount of funding for the Williamsville Toll Barrier and a few other projects are included. Mr. Fleischer summarized the Multi-Year Capital Program, reiterating its purpose to retain the infrastructure in good condition: 80 percent is for the highway and bridge program and 10 percent each is for Canal and other Thruway capital needs (snowplows and equipment). Despite the hindrances imposed by funding deficits, the aging infrastructure, and increased inflation rates that have resulted in decreased buying power, the Authority expects to maintain its infrastructure in good condition and maintain high levels of safety and service at the end of its Capital Program.

Mr. Fleischer reviewed the goals established by the Thruway Authority/Canal Corporation's Audit and Finance Committee that were intended to address out-year gaps in the Multi-Year Financial Plan. These conservative goals seek to place the Authority in a position of financial stability in order that the Capital Program may be effectively delivered. Chairman

Buono expressed concern that the Authority's credit ratings might be jeopardized. Mr. Fleischer advised that the Authority's credit rating was in good standing, although the Authority is on negative watch. The rating agencies were presented with these goals and staff is hopeful that the ratings will be sustained. Mr. Conway questioned whether the rating agencies had provided a sense that they would be satisfied once these goals are met, to which Mr. Fleischer responded affirmatively, noting that the agencies had indicated that 1.7 was the minimally acceptable debt service coverage level. Mr. Bryan added that the Authority was originally put on negative watch at the time these out-year gaps were presented, pending the Authority's development of a plan and its subsequent delivery. The watch could be rescinded if the rating agencies are satisfied with the program. The agencies will more formally address the Authority's credit rating in the summer or fall. Mr. Conway asked how much the negative watch would affect the Authority's costs. Mr. Fleischer could not provide a definitive answer as the Authority has not yet gone to market since being placed on negative watch. Mr. Williams commented that a 1.7 debt service ratio is sufficient. He attributed the assignment of the negative watch solely to the Authority's reduced coverage ratios, which were previously 2.3 and 2.4 for an extended period of time. He expressed the opinion that a 1.7 rating was adequate when accompanied by the proper payment of obligations. Chairman Buono disagreed based on his conversations with the rating agencies, following which adjustments were made and revenue projections lowered. Mr. Fleischer clarified that modifications to the original plan had been made based on input from the public hearings.

Mr. Fleischer continued his presentation by summarizing the Authority's plan to close the gaps that included limiting its operating expense growth by 3.2 percent throughout the program. Cost containment efforts would be enhanced, as would deferring or canceling facility and equipment purchases; holding positions vacant; reducing overtime and fuel/energy; and the elimination of jobs. Other proactive activities involve enhancing real property revenue through the implementation of a market-based permit fee structure, as well as recovering additional revenue from unpaid tolls and fees. Chairman Buono asked if the Authority would be within the Governor's operating budget guidelines. Mr. Fleischer stated that the Authority would develop a plan consistent with the Governor's request to State Agencies. Mr. Williams asked if the Authority had success in passing legislation that allowed it to institute remedial measures to collect unpaid tolls from violators. Mr. Fleischer advised that legislation has not yet been enacted; the bill was introduced by the Senate, but the Assembly has yet to take similar action.

Mr. Fleisher provided an overview of the actions that have been taken in association with the public process that was approved by the Board in December 2007. In December 2007, financial reports were submitted to the Governor, State Comptroller and the Legislative fiscal committees in accordance with the law; proposed regulations for filing and public comment were submitted in accordance with the requirements of the State Administrative Procedure Act in January 2008; and an action plan was provided in March 2008 in response to the Comptroller's audit. In addition, the Authority conducted five statewide public hearings throughout March and April that were attended by staff and several Board Members. Chairman Buono asked how many attendees who spoke at the hearings would be classified as average citizens. Mr. Williams stated that approximately 18 citizens spoke at the Buffalo hearing. Mr. Fleischer estimated that of the 66 recorded speakers, approximately 20 represented personal interests and had no professional or political affiliation. Of these, approximately 15 participants were Canal enthusiasts who expressed appreciation for the Authority's efforts in maintaining the Canal. Mr. Howard added that the Canal supporters contrasted the Canal's current condition with that of its condition prior to its transfer to the Authority. Mr. Conway affirmed the number of statewide citizens participating at the hearings to be less than 20. Mr. Fleischer continued, noting that one or two representatives from the construction industry attended the hearings along with representatives from AAA. The AAA participants reported that they had received predominantly favorable feedback from their members. Recent poll results indicated that a majority of AAA members would support paying higher tolls if the revenue was applied to Thruway infrastructure projects. They were opposed to supporting the Canal, as they did not consider the Canal to be a transportation asset. Mr. Williams reiterated his opposition to the proposed toll adjustment, attributing his position to the lack of: legislation for toll evaders; movement of the Canal to State control; response on federal funding; and movement on reimbursement from the State for its borrowing. Mr. Fleischer noted that the Authority had not received the external assistance it was seeking. Mr. Howard affirmed the Authority's assignment made in the early 1990s to uphold the Thruway through tolls without the assistance of federal aid and reimbursement for the Canal. Mr. Williams stated that the assignment was wrong and a message needs to be sent.

Mr. Fleischer reviewed the recommendations of the Comptroller's audit that included retaining a collection agency to recoup delinquent E-ZPass tolls, an item that will be considered at the subsequent Board meeting. The Comptroller also recommended the Authority investigate the feasibility of a potential advertising scheme. In response, the Authority sought guidance from the Federal Highway Administration who responded that it severely restricts sponsorship/advertising along the Thruway, as it is not consistent with the operation of an interstate highway. The Authority is also considering eliciting the assistance of the Volpe Center, an arm of the U.S. Department of Transportation that specializes in transportation management, to identify potential additional efficiencies. Mr. Williams expressed support for this measure and asked what Volpe's cost was. Mr. Fleischer was unable to provide an estimate since a scope of work has not yet been defined.

Mr. Fleischer outlined the specific revisions of the proposed toll adjustment that included restricting the temporary S-Discounts to only customers of the New York Customer Service Center (NYCSC) effective July 1, 2009. This measure is an amendment from the original proposal that intended to completely eliminate the temporary S-Discount, which would generate about $14 million annually. A determination to modify this action was made to accommodate the New York State Motor Truck Association's recommendation to eliminate the S-Discount utilizing a phased-out approach to transition tolls to an axle-based classification. The discount assesses different tolls for 48-foot and 53-foot trucks, although both have the same number of axles. The Authority is moving toward implementation of an axle-based classification system in which axles will serve as the proxy for determining weight. An issue arose in 2005 when the toll classifications were reduced from 42 to nine, resulting in the assessment of the same toll for both 48-foot and 53-foot trucks. Even though both had the same number of axles, operators of the 48-foot trucks would have realized a 75 to 80 percent increase in tolls, which may have caused a detrimental impact on the upstate economy. The temporary discount was instituted to address this concern. Currently, drivers of 48-foot trucks who are customers of the NYCSC pay a proportionate toll through the temporary S-Discount program. New York State commercial drivers will benefit from this program by $10 to $12 million annually. Mr. Williams asked if this savings would apply only to existing E-ZPass operators. Mr. Fleischer advised that both new and existing customers would benefit. Other aspects of the toll adjustment include: a reduction in E-ZPass discounts to five percent beginning June 29, 2008; and an increase in the fee for the annual permit plan from $80 to $84 in 2009, and from $84 to $88 in 2010. Chairman Buono asked for verification of the complementary mileage provided in the commuter plan and the associated monetary increase. Messrs. Fleischer and Bryan advised that enrollees in the annual permit program would be allotted 30 miles of free travel for every trip. A $.02 per trip increase from 1988 is anticipated when fully implemented in 2010. Mr. Conway commented that the increase is far below the rate of inflation. Mr. Williams inquired as to the saturation level for the annual permits. Mr. Bryan addressed the E-ZPass saturation rates, and reported a recent increase in permit applicants. The E-ZPass levels vary; a low volume is noted in Rochester and Syracuse, and a higher amount in Buffalo and Albany. Chairman Buono asked if the Authority is marketing the commuter plan. Mr. Fleischer responded affirmatively; however, more could be done to promote the benefits of E-ZPass. E-ZPass On-the-Go tags are available for purchase on the Thruway and at the State Fair for immediate use, and were offered at the public hearings as well. Mr. Bryan added that a five percent increase in the enrollment rate of E-ZPass plans has been noted over the last 12 months. Proceeding with his explanation of additional aspects of the proposed toll adjustment, Mr. Fleischer stated that the plan would maintain a $2 commuter discount at the Tappan Zee Bridge when the commuter rate would become $3 per trip in 2009. This increase, compared to the $8 toll imposed at comparable downstate bridges, reflects favorably upon the Authority’s efforts to minimize the impact. The proposed adjustment also increases the monthly usage charge by five percent for certain bridge and barrier commuter plans which translates into pennies per trip for enrollees in those commuter plans. Two separate five percent general toll increases would be implemented in January 2009 and 2010, and the E-ZPass discount would be expanded to hybrid vehicles that meet certain fuel efficiency and emission standards. Mr. Williams received an affirmative reply to his inquiry of whether the Grand Island Bridge toll remains at $1, residents at $.09 and the commuter plan would increase by $.02 to $.27 in 2010. Cash rates for passenger vehicles would increase $.0043 per mile and E-ZPass rates would increase $.01 per mile. Commercial customers participating in the commercial volume discount saved $21 million in 2006 and are projected to save $29.1 in 2011. The trucking community is expected to realize an $8 million revenue return savings from this program. The Farm Bureau has expressed interest in joining the commercial volume discount program and presented the concept of a seasonal permit plan. Commercial drivers praised the Authority's operation of the Thruway and its favorable conditions.

The Authority's proposed passenger and commercial toll rates were compared with those of other national toll roads. By comparison, the Thruway is one of the least expensive toll facilities in the nation (per mile), and will remain so even after the toll adjustment is implemented. Mr. Howard asked if the current rates of other toll agencies were uninflated and compared with the Authority's proposed rates, to which Mr. Fleischer responded affirmatively. Mr. Williams commented that agencies have different reasons for toll increases; New Jersey, for example, will utilize its increased revenue to pay off state debt and securitize future revenues. Mr. Howard noted that the Authority maintains the Canal System. The Authority's ranking in comparison with the national standing is significant because it is symptomatic of a national transportation trend and portrays a favorable image of the Authority in light of funding and expense problems. It would be even more favorable if the rates were inflated.

After full discussion, on the motion of Mr. Howard, seconded by Chairman Buono, with one objection from Mr. Williams, the Audit and Finance Committee authorized submission of the Proposed Revenue Adjustment to the Authority Board for consideration.

Chairman Buono and Mr. Conway commended Mr. Fleischer's presentation and thanked him for his efforts.

Item 3

Review and Approve the Seventeenth Supplemental Local Highway and Bridge Special Limited Obligation Service Contract Resolution Authorizing an Amount not to Exceed $575,000,000 of Local Highway and Bridge Service Contract Refunding Bonds, Series 2008C (2008C Bonds) and Associated Statements, Agreements and any Additional Documents Deemed Necessary or Desirable, for the Sale of the 2008C Bonds, and Appointing a Trustee for the 2008C Bonds, Taking Such Action as Necessary to Effect the Restructuring 2008C Bonds, Including Termination of Insurance on Certain Bonds Described Herein, and Authorizing Any Necessary Amendments to or Termination of One

or More Interest Rate Exchange Agreements or Other Documents Relating to the Bonds to be Refunded or Otherwise Converted to a Different Interest Rate Mode for Board Action

Mr. Bryan provided an overview of the item, reporting that authorization is being sought for the refunding and restructuring of up to $575 million in auction rate securities originally issued as part of the 2003 chips transaction to convert them to variable rate demand bonds. The State has requested the Authority pursue this transaction. He then introduced Mr. Pat Reale from the New York State Division of the Budget who provided a brief description of the proposed transaction. Mr. Reale reported that the State is implementing a bond restructuring plan that includes this transaction. Mr. Williams requested clarification of whether the Authority was borrowing or refinancing. Mr. Reale noted that the transaction was essentially a refinance. Mr. Bryan expanded on Mr. Reale's response, noting that the Authority possessed auction rate securities for which the markets were failing. As a result, there emerged too many sellers of these securities and not enough interested buyers. Mr. Williams asked if this was a conduit financing process for the State for which the Authority would be reimbursed. Messrs. Bryan and Reale advised that the Authority will be fully reimbursed for actual costs; it will not, however, receive an additional fee for conducting the transaction. Mr. Williams asked what the State's savings (rate wise) amounted to by having the Authority conduct the transaction. Mr. Reale acknowledged there was no trading difference. Mr. Williams asked why the State isn't borrowing the money itself. Mr. Reale advised that it would require voter approval which would require transportation bond acts. A transportation bond act was implemented in 2005 for various highway and transportation purposes. The State is trying to do as much as it can pursuant to this act.

After full discussion, on the motion of Chairman Buono, seconded by Mr. Howard, with one objection from Mr. Williams, the Audit and Finance Committee authorized submission of the Seventeenth Supplemental Local Highway and Bridge Special Limited Obligation Service Contract Resolution Authorizing an Amount not to Exceed $575,000,000 of Local Highway and Bridge Service Contract Refunding Bonds, Series 2008C (2008C Bonds) to the Authority Board for consideration.

Item 4

Review and Accept the Following

a. Report of Investments for the Quarter Ending March 31, 2008 for Submission to the Board

b. Periodic Reports Submitted to the Office of the State Inspector General

Mr. Bryan requested acceptance of the Quarterly Investment Report for submission to the Authority Board.

Mr. Allen requested acceptance of reports submitted to the Office of the State Inspector General.

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

Item 5

Review and Discuss, as Necessary, the Following Items

a. 2007-08 Internal Control Report submitted to the NYS Division of the Budget

b. Office of the State Comptroller Audits

c. Audit and Finance Committee 2008 Draft Work Plan

Mr. Allen presented the above Items for review and discussion only.

After full discussion, the Audit and Finance Committee noted the above Items as received.

Adjournment

There being no further business to come before the Audit and Finance Committee, on the motion of Mr. Williams, seconded by Chairman Buono, without any objections, the meeting was adjourned at 10:15 a.m.