

**MINUTES OF THE MEETING  
OF  
THE FINANCE COMMITTEE**

**January 25, 2011**

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**A regular meeting of the Finance Committee was held at the Clarence D. Rappleyea Building, White Plains, New York, at approximately 10:40 a.m.**

**The following members of the Finance Committee were present:**

*Michael J. Townsend, Chairman  
Trustee Eugene Nicandri  
Trustee Jonathan F. Foster  
Trustee Mark O’Luck*

**Also in attendance were:**

<i>Gil Quiniones</i>	<i>Chief Operating Officer</i>
<i>Elizabeth McCarthy</i>	<i>Chief Financial Officer</i>
<i>Donald Russak</i>	<i>Senior Vice President – Planning and Finance</i>
<i>Brian McElroy</i>	<i>Treasurer</i>
<i>Karen Delince</i>	<i>Corporate Secretary</i>
<i>Lorna Johnson</i>	<i>Assistant Corporate Secretary</i>
<i>Sheila Baughman</i>	<i>Senior Secretary, Corporate Secretary’s Office</i>

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**1. Approval of the Minutes**

The Minutes of the Regular Meeting held on October 22, 2010, were unanimously adopted.

## **2. Report of the Chief Financial Officer**

Ms. Elizabeth McCarthy updated the committee on some of the activities in the Finance Department. She provided highlights as follows:

- The Authority has replaced its expiring \$575M revolving credit agreement with a new \$550M revolving credit agreement;
- The Authority received affirmation of its short-term rating from all of the three rating agencies;
- Staff executed a 2-year interest rate cap at \$300 million for the Authority's commercial paper supporting its energy service program;
- Refinancing is on hold because the rates are too high at the present time. Staff will continue to monitor the market for refinancing opportunities.

Ms. McCarthy then stated that staff has prepared a formal policy for the management of interest rate exchange agreements and asked Mr. Brian McElroy to provide the highlights of staff's proposal to the Committee.

### **3. Policy for the Use of Interest Rate Exchange Agreements**

Mr. McElroy presented the highlights staff's proposal to the Committee.

In response to a question from Trustee Mark O'Luck, Ms. McCarthy said that the energy risk relates to a medium-term hedge the Authority executed at the request of its SENY customers, and that the loss of \$64M will be fully recovered in the Authority's rates from those customers. She also stated that the proposed Policy includes the management of derivatives, interest rate risk and interest rate debt cost. In response to another question from Trustee O'Luck, Ms. McCarthy said that the firm, Risk Centrex, and Scott Scholten, the Authority's advisor on energy risk control, are working on redesigning the Authority's Energy Risk programs; the firm, PFM is the Authority's financial and swap advisor. In response to further question from Trustee O'Luck, Ms. McCarthy said that there is no advantage to either the finance or swap advisors if they are kept together or apart. Mr. McElroy added that the current financial and swap advisors are the winning bidders on two separate RFPs; therefore they are two independent contracts.

In response to a question from Vice Chairman Foster, Ms. McCarthy said that staff does not need Board approval to enter into swap agreements unless over a notional amount over \$250 million; this in order to give staff the flexibility to refinance or to react quickly to market changes. In response to further question from Vice Chairman Foster, Ms. McCarthy said that, as part of its reporting policy, staff will advise the Board if any meaningful swap is added to the portfolio.

On motion made and seconded, the Finance Committee agreed to recommend that the Board of Trustees approve the Policy for the Use of Interest Rate Exchange Agreements as outlined in the presentation to the Committee.

#### **4. Voluntary Contribution of Funds to New York State Treasury**

Mr. Donald Russak presented the highlights staff's proposal to the Committee.

Chairman Townsend opined that requests for contributions from the state seem to be in an upward spiral as opposed to the Authority's revenues and that while he recognizes that the state is under tremendous pressure, the Trustees have to determine if this contribution, which the Authority is committed to, is fiscally prudent and advisable, and asked for staff's guidance on this. In response, Mr. Donald Russak said that staff stress tested the issues such as the low water flows; the softening of energy prices; the Authority's cash flow, liquidity and cash reserve and concluded that at this time the Authority can manage to make the contribution to the State treasury.

Trustee Nicandri stated that last December the Authority approved a flat budget for 2011 and it is an ongoing concern that the Authority's margin for doing business tightens. He also stated that the Authority continues to be challenged as it decides which projects to defer or discard because of budget constraints. He further stated that he is concerned as to the effect the contribution to the state has on the Authority's ability to do business. Therefore, he is voting against the contribution.

Chairman Townsend commented that there have been discussions with regard to the Great Lakes Wind Turbine initiative and the Hudson River Transmission Line which will be very costly to the Authority. He said that he wanted the assurance that these projects make economic sense will not impact the Authority's ability to work on projects that are consistent with its mission statement. Vice Chairman Foster agreed, adding that he had concerns regarding the projects as well. Trustee O'Luck said that Board should look at these projects more comprehensively. Ms. McCarthy said that staff will provide additional information to the Trustees before they are asked to make a decision on the projects.

Trustee O'Luck said that it is important for Board members to be cognizant of the different Authority projects and their overall effects in order to assess its resources before making contributions to the state. Trustee Nicandri opined that he is concerned about the advisability of doing the projects. Chairman Townsend said that as part of the Board's fiduciary duties, the Board should not approved any level of contribution to the state without first looking at the Authority's long-term capital needs and commitments and suggested that the Board set a timeframe for discussions before contemplating or approving further contributions to the state.

**5. Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption**

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In response to a question from Trustee Nicandri, Ms McCarthy said that with regards to the issues raised by the City, staff evaluated their comments and made a recommendation to the Board as to the validity of those comments versus the Authority's position and this was outlined the agenda item. She continued that after discussions with the Customer, staff accepted some of their suggestions and, made some adjustments; however, staff contends that the cost recovery that the Authority has requested is appropriate. Mr. Donald Russak added that with regards to the issue of the decommissioning, staff also contends that the Authority appropriately drew the line between what is operating costs and decommissioning costs.

In response to further question from Trustee Nicandri, Mr. Russak said the Customers are concerned with regards to the allocation of administrative costs and that the methodology used for the Authority's allocation is widely used in the utility industry, applied to all of the Authority's projects and stems from litigation related to the Authority's hydro rates.

After further discussions, Trustee Nicandri suggested and it was agreed to remove the item from the Consent Agenda to the Discussion Agenda so that there can be open discussion regarding some of the issues that were raised by the Customer.

**6. Next Meeting**

The next regular meeting of the Finance Committee is to be determined. On motion made and seconded, the meeting adjourned at approximately 11:20 a.m.