PROGRAM PLANNING COMMITTEE OF THE NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

Minutes of the 67th Meeting Held on September 8, 2008

Pursuant to a Notice and Agenda dated September 3, 2008, a copy of which is annexed hereto, the 67th meeting of the Program Planning Committee of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY was convened at 10:30 a.m. on Monday, September 8, 2008, at the Authority's Board Room at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's New York City office at 485 7th Avenue, 10th Floor, New York, New York.

The following members of the Committee were present:

Vincent A. DeIorio, Esq., ex officio Parker D. Mathusa, Committee Chair Robert B. Catell (via video conference from NYSERDA's NYC Office) Elizabeth W. Thorndike, Ph. D.

Also in attendance were Robert G. Callender, Vice President for Programs; Jeffrey J. Pitkin, Treasurer; Hal Brodie, General Counsel and Secretary to the Board; Mitchell Khosrova, Associate Counsel and Secretary to the Program Planning Committee; and various members of the Authority staff.

Committee Chair Mathusa called the meeting to order, noted the presence of a quorum, and stated that a Notice of the meeting, see copy attached, was mailed to the Members and the press on September 3, 2008. He noted that this Program Planning Committee ("PPC") meeting was being webcast to give the public access to watch the meeting through the internet from any location. All of the Committee members introduced themselves.

Chair Vincent A. DeIorio thanked all NYSERDA management and staff for their recent hard work and welcomed everyone back from the summer.

The first agenda item concerned the approval of the minutes of the 66th meeting of the Committee held on June 12, 2008. Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the 66th meeting of the Committee were approved.

Chair Mathusa then introduced Treasurer Jeff Pitkin to report on the resolution approving revisions to the Authority's Budget for Fiscal Year ("FY") 2008-09, which was originally approved at the January 2008 Board meeting. Overall, the total budgeted expenditures are increased by \$22 million from \$457 million to \$479 million.

Mr. Pitkin explained that the State appropriation revenue decreased by \$20.7 million due to a variety of changes. First, the Governor and Legislature enacted across-the-board cuts for FY 2008-09 appropriations, which reduced funding for the Research & Development ("R&D") and Energy Analysis programs by approximately \$1.1 million (5.9%). Additionally, the revised Budget also reflects elimination of \$18.9 million provided for the Investment in Energy Conservation and Efficiency Pilot Program.

These cuts were offset by increases in certain funding. The Authority received a \$2 million Legislative appropriation for building a Jamestown area geological stratographic test well and core sample analysis; a \$13.5 million appropriation suballocation for building the Hudson Valley Community College ("HVCC") TEC-SMART facility, of which approximately \$1.9 million is expected during FY 2008-09; and a \$2 million appropriation suballocation for solar training initiatives, of which \$200,000 is expected during FY 2008-09.

The revised Budget adds \$21.3 million in Energy Efficiency Portfolio Standard ("EEPS") funding. In June the Public Service Commission ("PSC") issued an Order in the EEPS proceeding to provide funding for five NYSERDA "Fast Track" programs totaling approximately \$85 million annually starting in October 2008 and continuing through 2011. The funding includes \$5.25 million annually to increase the funding previously provided in System Benefits Charge ("SBC") III to enhance program measurement and verification from 2% to 5% of funding. NYSERDA will submit funding requests for additional programs in the EEPS proceeding on September 22nd, but no additional revenue is included in the Budget.

Mr. Pitkin noted that the revised Budget reflects elimination of \$5 million in funding originally included from the projected sale of allowances under the United States Environmental Protection Agency's Clean Air Interstate Rule ("CAIR") program based on a recent ruling from a federal appeals court which invalidated the program. Funding for the Regional Greenhouse Gas Initiative ("RGGI") was increased \$26.1 million to reflect the minimum reserve price established in the Department of Environmental Conservation's ("DEC's") regulations of \$1.86/ton. The first RGGI auction is scheduled for September 25, 2008, but New York State will not participate until the December 2008 auction. NYSERDA is proceeding with the planning for RGGI programs, understanding the volatile nature of this program; additional staffing will not be added to administer these programs until the revenues are certain and until the details of the particular programs to be funded are determined.

The revised Budget reduces interest income revenues by \$4.5 million based upon overall declines in market interest rates.

The revised Budget for salaries and benefits decreased by about \$2.4 million based upon a reduction in the number of full time equivalents budgeted, reflecting a number of staffing vacancies which have occurred during the year. Overall, the staffing level is reduced slightly to 284 positions, including 5 additional positions anticipated to be added in early 2009 assuming the successful completion of the RGGI auction.

Mr. Pitkin reminded the Members that the Authority's program administration costs for the SBC programs are capped at 7% of total funding, including the additional funding received for the Fast Track programs. As has been previously discussed with the Members, a new accounting standard (GASB45) was implemented effective April 1, 2007, which increased NYSERDA's program administration costs for post-employment health insurance benefits, and this additional cost was not included in the 7% administration budget originally established for the program. GASB45 costs are budgeted at about \$3.1 million for the year for the Authority as a whole, of which about \$1.6 million is allocated to the SBC programs. This amount represents about .8% of SBC funding.

NYSERDA has filed a new Memorandum of Understanding ("MOU") with the Department of Public Service ("DPS") and PSC that continues to cap its program administration costs at 7%, including the costs associated with GASB45. Senior Management determined that this commitment was necessary to demonstrate administrative efficiencies and economies of scale which should be realized through the additional funding provided. However, it must be stressed that this funding limit places pressure on staffing levels and will require staff to reexamine processes and programs to make sure that they are both efficient and focused. Staffing levels and administrative expenses will be re-examined when RGGI proceeds are realized, and if NYSERDA receives additional funding through the EEPS proceeding.

Mr. Pitkin stated that the revised Budget includes an increase of approximately \$2.9 million for capital asset additions, primarily for additional costs for implementing the PeopleSoft Enterprise Suite to replace and enhance NYSERDA's financial management system and also for costs incurred to replace NYSERDA's telecommunications system.

Overall, the Budget reflects that NYSERDA would end the fiscal year with a balance of unrestricted net assets of \$2 million. This amount, representing about .4% of budgeted expenditures, is generally in line with the Authority's historical, fiscally prudent level of reserve funds.

Mr. Mathusa asked if there was any further discussion or questions regarding a recommendation by the Committee that the Board approve the resolution regarding the revisions to the FY 2008-09 Budget. There being none, based on all the reports and discussions as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the resolution approving the revisions to the FY 2008-09 Budget. A copy of said resolution is attached hereto as Exhibit A.

Mr. Pitkin next reported on NYSERDA's State Appropriation Request, which is submitted annually to the Division of the Budget and sets forth the Authority's requests for state appropriations and to review and comment on the Preliminary Spending Plan for FY 2009-10 in anticipation of the Budget to be presented to the Members for approval at the January 2009 meeting.

For FY 2009-10, NYSERDA is requesting appropriations totaling \$30.6 million, a decrease of \$1.3 million (4.1%) from the FY 2008-09 State Budget. The appropriation requested for the

Energy R&D and Energy Analysis programs is \$412,000 lower than the prior year due to non-recurring costs which were included in the prior year's appropriation for updating the State Energy Plan. NYSERDA is consulting with Division of Budget staff to ensure that the amount requested is consistent with the administration's planning forecasts relative to across-the-board cuts enacted in the FY 2008-09 Budget prior to the submission of the request. The appropriation request for the West Valley bond debt service is eliminated since the final maturity of these bonds occurs on April 1, 2009.

The State Appropriation Request also includes requests to re-appropriate amounts included in the State FY 2008-09 Budget but not fully expended through March 31, 2009, except that no reappropriation is requested for the Investment in Conservation and Efficiency Pilot program.

The Preliminary Spending Plan for FY 2009-10 includes all revenues and expenses by program area. Overall, the Plan includes expenses of approximately \$568.4 million, as compared to the Revised Budget for FY 2008-09 of \$479 million. The increase is primarily due to the annualization of funding for both the EEPS Fast Track funding and RGGI. No funding is included for any amounts which NYSERDA may receive for additional programs to be administered through the EEPS proceeding.

Mr. Pitkin stated that the preliminary spending amount for salaries and benefits reflects annual salaries for all staffing positions budgeted in the revised FY 2008-09 Budget, as well as for 63 additional positions. These positions have been included based on an estimate for programs to be administered for RGGI, assuming that the administrative rate is the same 7% rate budgeted for the SBC programs. NYSERDA expects to refine these staffing levels and costs once the revenues and programs to be administered are more clearly determined, and a revised amount will be included in the Budget presented to the Members in January 2009. Staff expects that this will take into consideration economies of scale which can be realized through this additional funding.

The Preliminary Spending Plan projects that the balance of unrestricted net assets at the end of the fiscal year will be approximately \$2.7 million, or about .5% of budgeted expenditures. Staff believes that this amount is both fiscally prudent and reasonable.

Mr. Mathusa asked if there was any further discussion or questions regarding a recommendation by the Committee that the Board approve the resolution regarding the State Appropriation Request for FY 2009-10. There being none and based on all the reports and discussions regarding the State Appropriation Request and Spending Plan as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the resolution approving the Authority's State Appropriation Request for FY 2009-10. A copy of said resolution is attached hereto as Exhibit B.

Chair Mathusa then introduced Vice President for Programs Robert Callender to report on the resolution regarding the approval of a lease agreement between NYSERDA and Applied NanoWorks, Inc. ("Applied Nano") to lease space located at NYSERDA's building at 10 Hermes Road at the Saratoga Technology + Energy Park ("STEP").

Mr. Callender explained that as a result of NYSERDA's anchor tenant Starfire Systems moving into its new office, lab, and manufacturing space at the new building located at STEP; Starfire's existing space at NYSERDA's 10 Hermes Road facility became available. Notice of the availability of space at 10 Hermes Road was advertised by NYSERDA in the Contract Reporter and on NYSERDA's website.

As a result of NYSERDA marketing this space at STEP, Applied Nano, a clean energy company currently located in the Rensselaer Incubator Program in Rensselaer, New York, has requested to locate its business at STEP and desires to occupy approximately 6,797 square feet of lab, manufacturing and office space in NYSERDA's 10 Hermes Road facility at STEP.

Mr. Callender noted that Applied Nano is an advanced materials company that has developed proprietary manufacturing technologies for use in the clean energy technology sector. The company's focus is on the oil refinery, photovoltaic thin film, and light-emitting diodes (LED) markets, where its conductive materials are used to reduce energy consumption in the processing stage and, therefore, total production costs.

The proposed lease agreement between Applied Nano and NYSERDA contains a three year term, commencing on January 1, 2009, and ending on December 31, 2011, with an option to renew the lease for one year, provided Applied Nano offers evidence that it will move into new space at STEP at the end of the one year option. NYSERDA's 10 Hermes Road facility is being used as a technology accelerator for start-up companies to locate for a short period of time to commercialize their technology, and then grow into new space on the STEP campus.

Under the proposed lease, the initial annual rental payment for the 6,797 square feet of space will be \$7.50/sf, or \$50,977.50, from April 1, 2009 through December 31, 2009, then increasing annually to \$10.50/sf, or \$71,368.50 for calendar year 2011. The rental rate for the renewal option is \$12.50/sf, or \$84,962.50. The Authority has been advised by a local real estate professional that this proposed rent structure is in the fair rental market range for such space in the area, and these proposed rental terms are consistent with other leases we have entered into with other STEP tenants.

Applied Nano has a staff of 10, and anticipates hiring an additional 40 new employees in the next three years, for a total of 50 full time hires. Applied Nano meets all of the tenant criteria requirements that are outlined in the STEP Master Plan and Land Plan and is an excellent fit for NYSERDA's Technology Accelerator space at 10 Hermes Road.

Mr. Mathusa asked if there was any further discussion or questions regarding a recommendation by the Committee that the Board approve the resolution regarding the Applied Nano lease agreement. There being none and based on all the reports and discussions regarding the lease agreement as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the resolution approving a lease agreement between the Authority and Applied Nano for space located at 10 Hermes Road at STEP. A copy of said resolution is attached hereto as Exhibit C.

Mr. Mathusa asked if there was any other business before the Committee. There being none, upon motion duly made and seconded, and by unanimous voice vote of the Members, the 67th meeting of the Program Planning Committee was adjourned.

Respectfully submitted,

Rell Khooneva

Mitchell Khosrova

Secretary to the Program Planning Committee



New York State Energy Research and Development Authority

Vincent A. Delorio, Esq., Chairman

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NOTICE OF MEETING AND AGENDA

September 3, 2008

TO THE GUESTS OF THE PROGRAM PLANNING COMMITTEE:

PLEASE TAKE NOTICE that a meeting of the Program Planning Committee (the 67th meeting) of the New York State Energy Research and Development Authority will be held in the Authority's Albany Office at 17 Columbia Circle, Albany New York, and by video conference in the Authority's New York City Office, located at 485 Seventh Avenue, 10th floor, New York, New York, on Monday, September 8, 2008, commencing at 10:30 a.m., for the following purposes:

- 1. To consider and act upon the Minutes of the sixty-sixth (66th) meeting of the Program Planning Committee held on June 12, 2008.
- 2. To receive a report from the Treasurer and to consider and act upon recommending approval of a resolution approving revisions to the Authority's Fiscal Year 2008-09 budget.
- 3. To receive a report from the Treasurer regarding the Authority's Fiscal Year 2009-10 Preliminary Spending Plan and the Authority's State Appropriation Request For Fiscal Year 2009-10 and act upon recommending approval of a resolution approving the State Appropriation Request for Fiscal Year 2009-10.
- 4. To receive a report from the Vice-President for Programs and to consider and act upon recommending approval of a resolution approving the execution of a Lease Agreement between the Authority and Applied NanoWorks, Inc. for space located at 10 Hermes Road at the Saratoga Technology + Energy Park ("STEP").
- 5. To transact such other business as may properly come before the Committee.

Members of the public may attend the meeting at any of these locations. The meeting is also available through webcast at http://www.nyserda.org/governancemeetings.asp

Mitchell Khosrova

Secretary to the Program Planning Committee

Exhibit A

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RESOLVED, that the Fiscal Year 2008-09 Budget and Financial Plan (Revised September 2008) submitted to the Members for consideration at this meeting, with such non-material, editorial changes and supplementary schedules as the President and CEO, in his discretion, may deem necessary or appropriate, be and it hereby is approved.

Exhibit B

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RESOLVED, that the proposed State Appropriation Request for Fiscal Year 2009-10 submitted to the Members for consideration at this meeting, with such non-material, editorial changes and supplementary schedules as the President, in his discretion, may deem necessary or appropriate, be and it hereby is approved for submission to, and at the request of, the New York State Division of the Budget.

Exhibit C

RESOLVED, that the execution of a lease agreement between the Authority and Applied NanoWorks, Inc. for premises located at 10 Hermes Road at the Saratoga Technology + Energy Park is approved on the terms presented at this meeting. The President or his/her designee is hereby authorized to execute such documents as may be necessary and appropriate to effectuate such lease agreement.