

MINUTES OF THE ONE HUNDRED TWENTY-EIGHTH MEETING OF THE  
AUDIT AND FINANCE COMMITTEE  
HELD ON JUNE 21, 2016

Pursuant to a notice dated June 8, 2016, a copy of which is annexed hereto, the one hundred twenty-eighth (128<sup>th</sup>) meeting of the Audit and Finance Committee (the “Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (the “Authority”) was convened at 10:30 a.m. on Tuesday, June 21, 2016, in the Authority’s Albany office located at 17 Columbia Circle, Albany, New York, and by videoconference in the Authority’s New York City Office located at 1359 Broadway, New York, New York

The following members of the Committee were present:

Jay Koh, *Chair of the Committee* (by videoconference in New York City)  
Sherburne Abbott  
Richard Kauffman, *Chair of the Authority*  
Jigar Shah (by videoconference in New York City)

Also present were Member Elizabeth Thorndike; John B. Rhodes, President and CEO; David Margalit, Chief Operating Officer; Janet Joseph, Vice President for Technology and Strategic Planning; Jeffrey J. Pitkin, Treasurer; Sara LeCain, Esq., Senior Counsel and Secretary to the Committee; Mark Mitchell, Director of Internal Audit; Dean Geesler and Elizabeth Clague, from KPMG, LLP; and various other staff of the Authority.

Mr. Koh called the meeting to order and noted the presence of a quorum. Mr. Koh stated that the meeting notice and agenda were forwarded to the Committee members and the press on June 8, 2016.

Mr. Koh indicated that the first item on the agenda concerned the approval of the minutes of the one hundred twenty-seventh (127<sup>th</sup>) meeting of the Committee, held on April 11, 2016.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the hundred twenty-seventh (127<sup>th</sup>) meeting of the Committee, held on April 11, 2016, were approved.

Mr. Koh indicated that the next item to be considered was the Authority's Investment Guidelines, Operative Policy and Instructions (June 2016) ("Investment Guidelines") and the Annual Investment Report ("Investment Report"). Mr. Pitkin explained that the Investment Guidelines set forth the policies and procedures for the investing, monitoring and reporting of the Authority's investments. The Authority is required to review and approve its investment policies annually, pursuant to Public Authorities Law Section 2925. No substantive changes are recommended to the Investment Guidelines.

The Annual Investment Report summarizes the Authority's investments and the results of its investment activities. The Report noted that the Authority's overall investments increased \$92.8 million to \$1.7 billion, principally from collections for the Renewable Portfolio Standard ("RPS"), the Energy Efficiency Portfolio Standard ("EEPS"), and the Technology and Market Development programs that have not yet been expended. These increases were offset in part by decreases in other funds for wind down expenditures or where expenditures exceeded revenues.

The investment balance of \$1.7 billion was offset by commitments for contractual obligations and pending contract awards totaling over \$2.6 billion, which is reflective of the Authority's performance-based funding arrangements and the timing differences between the receipt, commitment, and expenditure of the funds it administers.

Interest earnings for the fiscal year that ended March 31, 2016, were \$15.1 million with a 0.9% rate of return, an increase of \$5.4 million from the prior year.

The Investment Report includes a report from the intendent auditors, KPMG, LLP, noting that the Authority has complied with the State Comptroller's Investment Guidelines for Public Authorities and relevant sections of the Public Authorities Law.

In response to an inquiry from Mr. Kauffman, under the Authority's new approach for handling collections from the ratepayers, the funds will be held by the utilities and then the Authority will submit requisitions as the Authority spends the funds. As a result, the large cash balance listed on the Investment Report will decrease over time. Mr. Pitkin indicated that the RPS Program will have the greatest number of over commitments, due to active contracts being collected over time. Mr. Pitkin explained that many of the Authority's programs will from time to time have commitments that may exceed funds on hand because of the timing of the collections.

In response to an inquiry from Mr. Koh, Mr. Pitkin confirmed the Authority is moving from a position of pre-funding to a position of drawing funds when expenses are actually paid.

Mr. Koh added that the review performed by the independent auditors indicated that the Authority continues to have clean audits.

Mr. Koh stated that a resolution considering approval of the Authority's Investment Report and the Investment Guidelines would be considered after the Committee members meet in executive session with the independent auditors.

Mr. Koh stated that the next item on the agenda concerned the NYSERDA OPEB (Other Post-Employment Benefits) Trust ("Trust") Investment Policy Statement ("Investment Policy Statement") and its Annual Investment Report for the fiscal year that ended March 31, 2016. Mr. Pitkin explained that the Trust was established in March 2010 and is used to fund payments for health insurance premiums for eligible Authority retirees and their dependents for the Authority's share of retiree health insurance premiums provided through the New York State Health Insurance Program.

The Authority has contributed \$31.5 million to the Trust and has earned approximately \$6.9 million in investment income. The Trust has expended approximately \$4.2 million in benefit payments, and incurred approximately \$144,000 in administrative expenses, leaving a balance of \$34 million as of March 31, 2016.

Investments of Trust assets have been carried out by the Officers, appointed as Plan Administrators by the Members, in consultation with the Chair of the Audit and Finance Committee. Investments have been made consistent with the Board-adopted Investment Policy Statement, which requires diversified investments in mutual funds and exchange traded funds. The market value of the Trust's assets as of March 31, 2016, was \$36.7 million reflecting an appreciation of \$2.6 million or 35% total return on the Authority's contributions for the six-year period.

As of April 1, 2015, the most recent actuarial valuation of these OPEB liabilities, the actuarial accrued liability for benefits was \$47.0 million, and the value of plan assets at that time was \$34.8 million, so the plan was 74% funded. The funding of the Plan to date has been based on actuarially-determined Annual Required Contributions using a 30-year open amortization period, as permitted under Governmental Accounting Standards Board ("GASB") Statement No. 45 when the Trust was first created. As discussed with the Committee at the April 2016 meeting, GASB Statement No. 75 will become effective for fiscal year 2018-19 and require the recognition of any unfunded liability in the accrual-based financial statements. Staff are currently working with the Authority's actuary to update the actuarial valuation as of April 1, 2016, estimate the impacts of adoption of GASB Statement No. 75, and explore implications of alternative funding contributions.

The Members are also requested to adopt a resolution approving the Investment Policy Statement for the NYSERDA OPEB Trust. There are no substantive changes to the policy, however, editorial changes were made to remove future expected benefit payments since these are reported in the biannual actuarial valuation reports.

In response to an inquiry from Mr. Koh, Mr. Pitkin indicated that the footnotes to the current Annual Financial Statements summarizes the amount of the NYSERDA OPEB Trust funding relative to the actuarially-determined liability. Mr. Pitkin explained once the GASB No. 74 is implemented; unfunded liabilities will be reported on the balance sheet in the accrual-based financial statements, but the cash-based financial statements would only report annual contributions to the Trust on a pay-as-you-go basis.

No substantive changes were recommended to the Investment Policy Statement; however, editorial changes were made to remove future expected benefit payments since these are in the bi-annual actuarial valuation reports.

In response to an inquiry from Mr. Kauffman, Ms. LeCain indicated that the Board named the Officers as Authorized Representatives with the authority to make these investment commitments in accordance with the Investment Policy Statement. Mr. Pitkin added that the Board had approved the retention of an investment advisor, Milliman, who provides recommendations of investments, and who also performs the actuarial valuation.

In response to an inquiry from Ms. Abbott, Mr. Pitkin and Mr. Rhodes stated that the Investment Policy Statement is designed to provide a long-term targeted return on investments, which is incorporated and re-evaluated as part of the biennial actuarial valuation to ensure sufficiency of the Trust's assets to meet projected future benefit payments, and that the obligation to provide sufficient contributions to meet the Trust's obligations is a requirement of the Trust.

Mr. Kauffman clarified that if the Trust's funding is inadequate, the Authority has an obligation to fund the retirement accounts.

Mr. Koh added that the policy is reviewed on a bi-annual basis and evaluated for performance and which will drive the investment strategy of the trust.

Mr. Koh stated that a resolution recommending approval of the OPEB Trust Investment Report and the Investment Policy Statement would be considered after the Committee members meet in executive session with the independent auditors.

Mr. Koh indicated the next item on the agenda concerned the Authority's Annual Financial Statements and NY Green Bank Financial Statements. Peter Mahar, the Authority's Controller and Assistant Treasurer, explained that the Committee members are requested to recommend adoption of a resolution approving the Authority's and NY Green Bank's Financial Statements for

the fiscal year that ended March 31, 2016. Subsequent to the Board mailing, staff received some editorial changes from KPMG recommending removal of the comparative information from the prior year in the fiduciary fund financial statements and in one of the footnotes to meet the accounting standards.

The financial statements include an unmodified, clean opinion from the independent auditors, KPMG, LLP. A separate audit of NY Green Bank was conducted in order to provide stand-alone financial statements to NY Green Bank counterparties.

Accounting standards require the Authority report two separate financial statement presentations: one on the accrual basis of accounting similar to the private sector and one on a modified accrual basis of accounting (similar to a cash basis presentation).

The Authority's accrual based statements are called the "**Government-wide Financial Statements.**" These statements include a *balance sheet called the "Statement of Net Position" and an income statement called the "Statement of Activities."* Both statements segregate business-type activities (NY Green Bank) from governmental-type activities. These statements do not include funds held in a fiduciary capacity.

The second set of statements presented are called the "**Fund Financial Statements**" which focus on the near-term inflows and outflows and are reported on the modified accrual basis or cash basis of accounting. These statements are segregated between: statements for governmental funds that provide basic services and expenditures, the Proprietary Fund for NY Green Bank; and Fiduciary funds, which consist of funds held by the Authority for the benefit of others, including the NYSERDA OPEB Trust, low level radioactive waste, and West Valley Perpetual Care funds.

The Authority made the several changes to this year's financial statements. On the Statement of Activities, the allocated General and Administrative expenses are separated from direct program operating costs by Function/Program. The Saratoga Technology + Energy Park and Bond Financing functions were consolidated in the "Other" Function/Program column based on materiality of these functions. Lastly, at the bottom of the Statement of Activities the

presentation of “Net Position” balances was added by Function/Program to improve reporting on the timing differences between revenue recognition and expenditures.

Another change during the year was the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This standard required the Authority to record its proportionate share of New York State Retirement System’s Net Pension Liability and Pension Expense as determined by the Retirement System’s actuarial valuation. A Net Pension Liability of \$4 million was recorded for the Authority’s pro-rata share of the unfunded liability of the Retirement System.

In addition, the Annual Contribution payment made to the Retirement System during the year is now recorded as a Deferred Outflow of Resources (similar to a pre-paid expense), rather than an expense, since the payment was made subsequent to the last actuarial valuation by the Retirement System. The contribution payment and an additional amount determined by the Retirement System resulted in \$4.5 million being reported as Deferred Outflow of Resources. Impact of this adoption resulted in an increase to the beginning net position at April 1, 2015 of \$75,000 for the impact to prior years. The resulting Fiscal Year 2015-2016 actuarially-determined Pension Expense is \$3.6 million, which is approximately \$544,000 below budget.

Next, Mr. Mahar reported that cash and investments increased \$29.3 million principally due to scheduled collections received, but not yet spent, under the RPS and the EEPS programs.

Other Assets increased by \$76.5 million principally due to \$68.5 million increase in loans issued and outstanding through the Green Jobs-Green New York (“GJGNY”) Program, as well as a \$10 million from NY Green Bank for loans and other financing receivables outstanding.

Deferred outflows of resources increased by \$4.5 million due to the implementation of GASB Statement No. 68.

Long-term liabilities increased \$43.6 primarily due to bonds issued in the GJGNY Program to finance loans. Other liabilities decreased by \$11.4 million primarily due to a reduction in

accrued expenses resulting from the wind-down of the System Benefits Charge and EEPS Programs.

Restricted Net Position, which is the cumulative difference between revenues and expenses, increased from \$1.58 billion to \$1.66 billion primarily from unexpended funds received for particular specified programmatic purposes.

The unrestricted portion of net position (which can be used to finance operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased from \$3.6 million to \$3.9 million. Unrestricted net position at March 31, 2016 represent .4% of total expenses budgeted for fiscal year 2016-17 and are anticipated to be sufficient to meet working capital needs and to meet unanticipated expenditures, such as protecting public health and safety at West Valley.

The NYSERDA OPEB Trust and Fiduciary fund assets increased from contributions in excess of payments and interest and investment earnings.

State appropriation revenues were less than budgeted by \$10.6 million principally due to the level of reimbursable expenditures for certain programs funded through State re-appropriations.

Ratepayer assessment revenues were less than budget by \$140.7 million due to the January 2016 approval of the Clean Energy Fund (“CEF”), which established a “Bill-As-You-Go” approach for revenue collection. Under this approach, collections budgeted and scheduled to be received in January 2016 or later were directed to be held by the electric and gas utilities and used to reimburse the Authority in the future for actual CEF program expenses through a monthly reimbursement process.

Regional Greenhouse Gas Initiative (“RGGI”) Allowance auction proceeds exceeded budget by \$38.3 million principally due to significantly higher clearing prices for allowances sold

than had been estimated and from the unanticipated sale of additional allowances from the program cost containment reserve.

Other revenues were higher than budget by \$21.6 million primarily due to the level of reimbursable expenditures for the Consolidated Edison Companies of New York, Inc. Indian Point Energy Center Reliability Contingency Program being more than anticipated in the budget.

Salaries and benefit expenses were lower than anticipated by \$2.7 million principally due to vacancies not being filled.

Program expenditures were less than budgeted by \$102.8 million primarily due to the level of expenditures for RPS and the NY-Sun Programs being lower than anticipated in the budget, offset by RGGI expenditures being higher than anticipated.

Program operating costs were less than budgeted primarily due to lower than expected costs incurred for professional services related to NY Green Bank.

General & administrative costs were less than budgeted primarily due to lower than expected computer services and software costs.

The Authority administers certain programs on behalf of the New York State Public Service Commission (“PSC”) and others whereby funds are provided at program inception or on a fixed payment schedule over the program duration, but the terms of the program sponsor or enabling legislation limit the use of funds to certain program purposes. Frequently, the collection and recording of revenues does not occur in the same accounting period as the expenditure of such funds.

Next Mr. Mahar explained that the meeting packet included separate, stand-alone financial statements for NY Green bank. The financial statements report that NY Green Bank has committed \$54.5 million to its counterparties. As of March 31, 2016, \$10 million of this amount had been deployed.

NY Green Bank earned \$528,000 in operating revenues, \$1.3 million in interest earnings, and incurred \$5.5 million in operating expenditures resulting in a decrease of total assets and net position of \$3.7 million. Total Net Position at March 31, 2016 was \$212.6 million.

Lastly, Mr. Mahar concluded his report by stating that the meeting packet includes some additional reports issued by the independent auditors under governmental auditing standards. The auditors disclosed no instances of noncompliance or material weaknesses, found reasonable management's estimates and financial disclosures, found no misstatements or disagreements, and offered no management letter comments to address control weaknesses or suggestions for improvement.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin stated that NY Green Bank is projected to have sufficient capital to cover all of its expenses sometime in 2018.

In response to an inquiry from Mr. Shah, Mr. Pitkin stated that he could provide information regarding how NY Green Bank will meet their expenses at a later time.

In response to an inquiry by Mr. Koh, Mr. Pitkin stated that this is a reasonable benchmark as the commitment fees are income that are earned on each transaction. Though there is some variation, staff is starting to see some uniformity. Going forward the variations in expenses would drive the variations in revenue.

Mr. Koh stated that a resolution considering approval of the Authority's Financial Statements would be considered after the Committee members meet in executive session with the independent auditors.

Mr. Koh indicated that the next item on the agenda was a motion to convene in executive session for the purpose of reviewing the financial condition of the Authority.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 413

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Members of the Audit and Finance Committee of the New York State Energy Research and Development Authority shall convene in executive session for the purpose of reviewing the financial condition of the Authority.

The Committee members then met with only the independent auditors in executive session.

Mr. Koh reconvened the meeting in open session and announced that no formal action was taken during the executive session. He said the Committee members had a complete and thorough discussion with the independent auditors and that the independent auditors stated that Authority staff was responsive to their requests for information.

Wherefore, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 414

RESOLVED, that the “Investment Guidelines, Operative Policy and Instructions (June 2016),” as presented at this June 21, 2016 meeting are hereby recommended for approval by the Board; and

BE IT FURTHER RESOLVED, that the Authority's “2015-2016 Annual Investment Report,” for the year ended March 31, 2016, as presented at this June 21, 2016 meeting, is hereby recommended for approval by the Board to be adopted as the annual investment report of the Authority required by Section 2800 and Section 2925(6) of the Public Authorities Law.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 415

RESOLVED, that the “NYSERDA OPEB Trust Investment Report” for the year ended March 31, 2016, as presented at this June 21, 2016 meeting is hereby recommended for approval by the Board as the annual investment report of the NYSERDA OPEB Trust required by Section 2800 and Section 2925(6) of the Public Authorities Law; and

BE IT FURTHER RESOLVED, that the “Policy Statement for the NYSERDA OPEB Trust (Retiree Health Insurance Benefits Trust)” as presented at this June 21, 2016 meeting, is hereby recommended for approval by the Board.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 416

RESOLVED, that the Authority's Financial Statements and the Financial Statements of NY Green Bank as of March 31, 2016, as presented at this June 21, 2016 meeting is hereby recommended for approval by the Board as the financial reports required by Sections 1867(1) and 2800 of the Public Authorities Law; and

BE IT FURTHER RESOLVED, that the Authority's Four Year Financial Plan, as contained in the Financial Statements, is hereby recommended for approval by the Board for submission as required by Section 2800 of the Public Authorities Law.

Mr. Koh then stated that the next agenda item concerned the appointment of an independent auditor. The Members were asked to approve a resolution appointing KPMG, LLP as the independent auditors of the Authority and for the independent audit of NY Green Bank for the fiscal year ending ended March 31, 2017. Fees and expenses will not exceed \$95,000.

KPMG was competitively selected under an RFP issued in 2016. The Authority may renew the agreement annually for four, one-year extensions with annual adjustments to the fees. This would be the first year of the agreement.

The engagement letter from the auditors indicating the services they will provide in conjunction with the audit was provided to the Members and is consistent with the prior year's services.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 417

RESOLVED, the Audit and Finance Committee recommends approval of a resolution authorizing the President and CEO to retain the firm of KPMG, LLP as independent auditors for the Authority and for NY Green Bank for the fiscal year ending March 31, 2017.

Mr. Koh indicated that the next agenda item was the Annual Bond Sales Report (“Bond Sales Report”), and he called upon Mr. Pitkin to discuss this item. In accordance with Public Authorities Law Section 2800 and the Authority’s Financial Services Firms Guidelines, the Members are asked to adopt a resolution approving the Annual Bond Sales Report.

The report indicates that there were two bond issuances and one refunding completed during the fiscal year ended March 31, 2016.

The schedule of bonds outstanding reports information on the Authority’s bonds outstanding as of March 31, 2016, which totaled about \$3.1 billion.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 418

RESOLVED, that the Authority's Annual Bond Sales Report for the fiscal year April 1, 2015 through March 31, 2016, and the information contained therein, as presented at this June 21, 2016 meeting is hereby recommended for approval by the Board for submission pursuant to Section 2800 of the Public Authorities Law.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Mr. Koh indicated that the next item on the agenda was approval of the issuance of bonds on behalf of the Authority. Mr. Pitkin explained that the Members are requested to adopt a resolution authorizing the issuance of recipient bonds to the New York State Environmental Facilities Corporation (“EFC”) in an aggregate principal amount not to exceed \$32,588,500 in

connection with State Revolving Fund Revenue Bonds (“SRF Bonds”) expected to be issued by EFC through the State Clean Water Revolving Fund. The actual amount to be financed will be determined at the time of EFC’s pricing of the bonds relative to anticipated pledged revenue and could be closer to \$23 million, but the resolution seeks approval for up to \$32,588,500 based on EFC’s approval of a maximum financing amount available for the program.

The Bonds will be issued to finance residential energy efficiency loans issued pursuant to the GJGNY Program and secured by loan repayments. The Authority anticipates pledging loan repayments which will produce Projected Net Revenues of at least 125% of debt service over the term of the bonds and will covenant to EFC to maintain at least 120% coverage.

The Bonds will be issued as fixed-rate, taxable bonds with scheduled maturities (serial bonds or term rate bonds with mandatory sinking fund redemptions) structured to generally correspond to scheduled cash flow payments due from pledged loans. The final maturity will be no greater than approximately fifteen years. The Bonds will bear interest at a fixed rate determined at the time of pricing of the SRF Bonds, not to exceed 5%, but based on recent market interest rates, we anticipate a weighted average interest rate of about 2.4%.

Mr. Pitkin explained that the draft Project Finance Agreement sets forth the proposed terms and conditions of the Bonds. The Resolution presented to the Members requests the Authorized Representatives be authorized to execute the Project Finance Agreement and related documents, with such amendments as necessary.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 419

RESOLVED, that the Audit and Finance Committee recommends that the Board approve a resolution in substantially the same form as attached hereto as Exhibit A.

Mr. Koh indicated that the next item on the agenda concerned the Annual Internal Audit Report for the fiscal year 2015-2016 (the “Annual Report”). Mr. Koh called on Mark Mitchell, Director of Internal Audit, to present this item. Mr. Mitchell indicated that the Annual Report provided in the meeting packet revises the report previously mailed to the Committee. The Annual Report outlines the audits performed as of March 31, 2016: the Payroll Process Audit and the Authority’s Memorandum of Understanding (“MOU”) with the Long Island Power Authority (“LIPA”) for energy efficiency projects.

Mr. Mitchell explained that there was one audit performed without issuing a formal written report – the independent assessment of the management of the PeopleSoft ERP System Upgrade. The project's design and its implementation were assessed and feedback was provided to the project team throughout the project, so that project risks and potential vulnerabilities were communicated as they were identified. The independent assessment ended with the successful implementation of the upgrade in June 2015. Due to the nature of the project and the successful implementation of the system upgrade, a formal, written report was not warranted. However, Mr. Mitchell reported that the project management process was effective, and, the implementation was on time, successful, and went relatively smoothly.

There were also five audits that were approved for the 2015-16 Internal Audit Plan were still in the final stages of being completed as of March 31, 2016, the fiscal year end. Their status and anticipated completion dates were included in the meeting packet that was provided to the Committee. One of those audits was provided to the Committee the week before this meeting, and four more audits are expected to be provided to the Committee between this meeting and the September 2016. Those audits will be discussed during the September 2016 Committee meeting.

Although the carryover of the audits will affect the timing of the current Internal Audit Plan, it is not expected to affect the completion of the Internal Audit Plan approved by the Committee for the fiscal year ended March 31, 2017.

Mr. Koh stated that no formal action is required on this item.

Mr. Koh noted the successful completion of the Internal Controls Audit and commended management on its commitment to implementing and maintaining successful controls.

Mr. Koh stated the next item on the agenda is a report from Mr. Mitchell on recent audit activities and asked Mr. Mitchell to discuss this item.

Mr. Mitchell stated that in April 2016, the Committee was provided with an audit report on the audit of operating and reporting controls for two programs that the LIPA operated: the Commercial Efficiency Program (“CEP”) and the Solar Pioneer and Solar Entrepreneur (“Solar”) Program, which the Authority funded through a July 24, 2014 MOU with LIPA. Both programs were funded with RGGI funds.

The scope of the audit included about 1,900 completed CEP projects using \$19.6 million in funds for energy efficiency projects, and, for the Solar Program, about 3,300 completed projects using \$14 million in funds.

PSEG Long Island administers the programs on behalf of LIPA. The audit found that PSEG Long Island is effectively administering the programs and the design of the programs is compatible with similar programs being administered by the Authority. Internal Audit also found that, based on a sample of project level information, the project level data provided to the Authority was reliable.

Since the data is included in NYSERDA's reporting on the status of New York's RGGI-funded programs, Internal Audit examined the accuracy, reliability, and consistency of the reporting. As Internal Audit traced the use of the data for Long Island projects to the information reported by the Authority in its RGGI reporting, the audit found that methods for estimating net electricity savings or renewable energy generation from the two LIPA programs were inconsistent with the methods used for comparable Authority programs. This, in turn, affected calculations of net greenhouse emissions savings. Minor adjustments to the Authority's methodology were recommended, which are intended to further improve the reliability of the data presented in the Authority's RGGI reporting.

Management concurred with the opportunities for improvement identified. As a result, the Authority has adjusted its methodology for computing estimated energy savings from Long Island energy efficiency projects; and is also now reporting renewable energy generation from Long Island solar projects using the same method to compute benefits as it is using for the rest of New York.

The recommended improvements are reflected in subsequent RGGI reports. Internal Audit did not find any evidence that the reporting variances were significant enough to affect program policies or New York energy policy. The findings are described more fully in the Detailed Results section of the report.

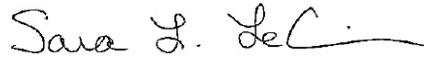
Mr. Mitchell indicated that the other audit recently provided to the Committee was the independent assessment of the Authority's internal controls over procurement and grants processes and its payment processes that was completed with the assistance of KPMG, LLP. The review found that the design and operating effectiveness of internal controls of these processes are effective.

KPMG, LLP identified potential business process efficiency improvements, primarily related to use of functionality in the PeopleSoft financial management system. Management agreed with and is implementing all of the short-term recommendations. They also are implementing many of the medium-term recommendations. Once KPMG, LLP provides case studies in an effort to inform management's consideration of certain recommendations, management will evaluate the longer term recommendations and provide a report on their decisions to the Committee during the September 2016 Committee meeting.

In response to an inquiry from Mr. Koh, Mr. Mitchell confirmed that there were no issues or inconsistencies noted as part of the audit.

Mr. Koh stated that the last agenda item concerned other business. There being no further business, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sara L. LeCain". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Sara L. LeCain  
Secretary to the Committee



**NOTICE OF MEETING AND AGENDA**

June 8, 2016

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred twenty-eighth (128<sup>th</sup>) meeting of the AUDIT AND FINANCE COMMITTEE 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 in the Authority’s New York City Office at 1359 Broadway, 19<sup>th</sup> floor, New York, New York, on Tuesday, June 21, 2016, commencing at 10:30 a.m., for the following purposes:

1. To consider the Minutes of the 127<sup>th</sup> meeting held on April 11, 2016.
2. To consider and act upon a resolution recommending approval of the Annual Investment Report of the Authority and the “*Investment Guidelines, Operative Policy and Instructions (June 2016).*”
3. To consider and act upon a resolution recommending approval of the Annual Investment Report for the NYSERDA OPEB (Other Post-Employment Benefits) Trust for the year ended March 31, 2016 and the “*Investment Policy Statement for the NYSERDA OPEB Trust (June 2016).*”
4. To consider and act upon a resolution recommending approval of the Financial Statements of the Authority and NY Green Bank for fiscal year 2015-16.
5. To consider and act upon a motion to enter into executive session for the purpose of reviewing the financial condition of the Authority.
6. To consider and act upon a resolution recommending approval of the appointment of the Authority’s independent auditors for fiscal year 2016-17.
7. To consider and act upon a resolution recommending approval of an annual bond sales report.
8. To consider and act upon a resolution authorizing the issuance of bonds to the New York State Environmental Facilities Corporation to finance residential energy efficiency loans issued through the Green Jobs - Green New York Program.

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**New York State Energy Research and Development Authority**

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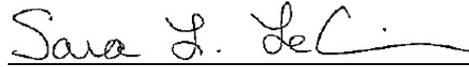
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9. To receive an Annual Internal Audit Report from the Director of Internal Audit.
10. To receive a report from the Director of Internal Audit on recent internal audit activities.
11. To transact such other business as may properly come before the meeting.

Members of the public may attend the meeting at either of the above locations. Video conferencing will be used at both locations and the Authority will be posting a video of the meeting to the web within a reasonable time after the meeting. The video will be posted at <http://www.nyserda.ny.gov/About/Board-Governance/Board-and-Committee-Meetings>.



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Sara L. LeCain  
Secretary to the Committee

Exhibit A

Resolution No. \_\_\_\_\_

WHEREAS, pursuant to special act of the Legislature of the State of New York (Title 9 of Article 8 of the Public Authorities Law of New York, as from time to time amended and supplemented, herein called the "Act"), the New York State Energy Research and Development Authority (the "Authority") has been established as a body corporate and politic, constituting a public benefit corporation; and

WHEREAS, pursuant to the Act, the Authority is authorized to issue bonds and notes to provide sufficient moneys for achieving the Authority's corporate purposes, including the establishment of reserves to secure such bonds and notes and the payment of interest on bonds and notes and, in connection therewith, to pledge all or part of the fees, charges, gifts, rents, revenues or other moneys received or to be received and leases or agreements to secure the payment of such bonds and notes; and

WHEREAS, pursuant to the Act, the Authority is also empowered to extend credit and make loans from bond proceeds to any person for the construction, acquisition, installation of, or for the reimbursement to any person for costs in connection with, any special energy project, including, but not limited to, any land, works, system, building, or other improvement, and all real and personal properties of any nature or any interest in any of them which are suitable for or related to the furnishing, generation, production, transmission, or distribution of energy or energy resources; and

WHEREAS, pursuant to the Green Jobs-Green New York Act of 2009 (Chapter 487 of the Laws of 2009) as from time to time amended and supplemented (the "GJGNY Act"), the Authority has been authorized to use innovative financing mechanisms to finance energy efficiency improvements through energy cost savings (herein called the "Green Jobs — Green New York Program"); and

WHEREAS, the Authority issued its "Residential Energy Efficiency Financing Revenue Bonds, Series 2013A (Federally Taxable)" in the aggregate principal amount of \$24,300,000 (the "Series 2013 Bonds") on August 13, 2013 for the purpose of reimbursing the Green Jobs - Green New York Revolving Fund established by the GJGNY Act (the "GJGNY Revolving Fund") for certain residential energy efficiency loans originated and outstanding through June 30, 2013; and to provide funding for new loans originated and to be originated under the Green Jobs -Green New York Program thereafter through December 31, 2013; and

WHEREAS, the Series 2013 Bonds were issued pursuant to an Indenture of Trust, as heretofore supplemented and amended, (collectively, the "2013 Indenture"), between the Authority and The Bank of New York Mellon, as trustee; and

WHEREAS, the 2013 Indenture contemplates the possible issuance of additional parity bonds thereunder to finance residential energy efficiency loans, provided, among other things, the Coverage Test (as defined and described in the 2013 Indenture) is satisfied and evidence is given

confirming that the ratings applicable to any outstanding bonds will not be lowered, suspended or withdrawn by reason of the issuance of such additional bonds; and

WHEREAS, on September 30, 2014, the Authority participated in the Short-Term Financing Program of the New York State Environmental Facilities Corporation ("EFC") under EFC's Clean Water State Revolving Fund Program and issued the Residential Energy Efficiency Financing Revenue Notes (Series 2014) (the "2014 Notes") to EFC in the aggregate principal amount of \$30,000,000; and

WHEREAS, on August 20, 2015, the Authority participated in the Long-Term Financing Program of the New York State Environmental Facilities Corporation ("EFC") under EFC's Clean Water State Revolving Fund Program and issued the Residential Energy Efficiency Financing Revenue Bonds (Series 2015A) (the "Series 2015 Bonds") to EFC in the aggregate principal amount of \$46,357,500, a portion of the proceeds of which were used to redeem the 2014 Notes; and

WHEREAS, in anticipation of further financing up to \$32,588,500 of residential energy efficiency loans through the issuance of bonds under the 2013 Indenture or other bonds under a separate indenture, the Authority will participate in the Long-Term Financing Program under EFC's Clean Water State Revolving Fund Program; and

WHEREAS, it is expected that participation by the Authority in EFC's Long-Term Financing Program will require the Authority to (i) enter into a State Clean Water Revolving Fund Project Finance Agreement (Leveraged Financing Program) with EFC (the "Project Finance Agreement"), a copy of a draft form of which has been presented to this meeting, (ii) issue its bonds to EFC in an aggregate principal amount not to exceed \$32,588,500 (the "Series 2016 Bonds") (iii), as security for the Series 2016 Bonds, pledge loan repayments from residential energy efficiency loans issued to date and not previously pledged for the Series 2013 Bonds and Series 2015 Bonds plus additional loans expected to be issued through March 31, 2017 or until bond proceeds have been expended pursuant to a pledge agreement (the "Pledge Agreement"); (iv) covenant to apply all or any portion of the moneys, if any, which are on deposit in the GJGNY Revolving Fund (excluding amounts held in the Collateral Reserve Account established under and defined in the Reimbursement Agreement, dated as of August 1, 2013, entered into between the Authority and EFC as amended by the Amended and Restated Reimbursement and Security Agreement between the Authority and EFC, dated as of August 1, 2015 (together the "Reimbursement Agreement") as Guarantor in connection with the Series 2013 Bonds) which are legally available for the purpose of making any payment due under the Series 2016 Bonds or the Project Finance Agreement for which other moneys pledged to secure the Series 2016 Bonds are insufficient; and (v) enter into an amendment to the Reimbursement Agreement.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY AS FOLLOWS:

Section 1. The offering, issuance, sale, and delivery of the Series 2016 Bonds, and receipt of the financing proceeds, upon the terms and conditions and for the purposes described in this resolution are hereby authorized. The Series 2016 Bonds shall be issued in one or more series in an aggregate principal amount not to exceed \$32,588,500 and shall bear interest at rates determined

by EFC and approved by the Chair, the Vice Chair, the President and CEO, the Chief Operating Officer, the Vice Presidents, the Treasurer, or the Secretary of the Authority (individually, an "Authorized Representative" and collectively, the "Authorized Representatives"). The Series 2016 Bonds shall bear interest at a fixed rate of interest not to exceed five per cent (5%) per annum. The Series 2016 Bonds shall mature no more than fifteen years after the date of issuance thereof. The Series 2016 Bonds shall be dated, have the final maturity, have the designation or designations, be subject to redemption, be payable as to principal, premium, if any, and interest, and have such other provisions all as set forth in the 2013 Indenture as the same shall be supplemented by a Third Supplemental Series Indenture (together, the "2016 Indenture"). The form of the Series 2016 Bonds and all other provisions with respect thereto shall be as set forth in the 2013 Indenture or determined in the manner set forth therein. No Series 2016 Bonds shall be issued pursuant to this resolution after June 21, 2017, provided that amounts may be advanced subsequent to such date under any 2016 Bond once issued in accordance with the terms of the Project Finance Agreement and this resolution.

Section 2. Subject to the limitations set forth in Section 1 hereof, the Authorized Representatives are each also hereby authorized to: (i) determine on behalf of the Authority with respect to the Series 2016 Bonds the particular loans and principal amounts thereof to be pledged as security for the payment of the Series 2016 Bonds; and (ii) pledge any payments on any residential energy efficiency loans not pledged to or financed by the Series 2013 Bonds or the Series 2015 Bonds as security for the Series 2016 Bonds.

Section 3. The Authorized Representatives are each hereby authorized to execute, acknowledge, and deliver any amendment or supplement to the 2013 Indenture (including a Supplemental Series Indenture relating to the Series 2016 Bonds), any amendment or supplement to the Reimbursement Agreement, the Project Finance Agreement and a Pledge Agreement, each with such terms, conditions, amendments, supplements, changes, insertions, and omissions as such Authorized Representative shall approve. Execution of such documents by an Authorized Representative shall be conclusive evidence of any approval required by this Section. Any Authorized Representative, the Assistant Treasurer, and the Acting Secretary of the Authority are each hereby authorized to affix the seal of the Authority on such documents and attest the same.

Section 4. The Authority hereby authorizes the execution and delivery to EFC of supporting documentation for financial assistance from the State Clean Water Revolving Fund, including the Project Finance Agreement.

Section 5. The Authorized Representatives are each hereby authorized and directed to execute and deliver any such other agreements, documents or certificates, to do and cause to be done any such other acts and things and to make such other changes, omissions, insertions, revisions, or amendments to the documents referred to in Sections 1 through 4 of this resolution as they may determine necessary or proper for carrying out, giving effect to, and consummating the transactions contemplated by this resolution, the Project Finance Agreement, the 2013 Indenture, the Reimbursement Agreement or the Pledge Agreement delivered pursuant hereto.