

MINUTES OF THE ONE HUNDRED TWENTY-NINTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON SEPTEMBER 20, 2016

Pursuant to a notice dated September 9, 2016, a copy of which is annexed hereto, the one hundred twenty-ninth (129th) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 11:00 a.m. on Tuesday, September 20, 2016, in the Authority’s Albany Office 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* (NYC via videoconference)

Sherburne Abbott

Richard Kauffman, *Chair of the Authority*

Also present were John B. Rhodes, President and CEO; David Margalit, Chief Operating Officer; Janet Joseph, Vice President for Technology and Strategic Planning; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, Esq., General Counsel; Sara L. LeCain, Esq., Senior Counsel and Secretary to the Audit and Finance Committee; Mark Mitchell, Director of Internal Audit; and various other staff of the Authority.

Mr. Koh called the meeting to order, and stated that the meeting notice and agenda were mailed to the members and press on September 9, 2016.

The first item on the agenda concerned the approval of the minutes of the one hundred twenty-eighth (128th) meeting of the Committee held on June 21, 2016.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members, the minutes of the one hundred twenty-eighth (128th) meeting of the Committee, held on June 21, 2016, were approved.

Mr. Koh stated that the next item on the agenda concerned proposed changes to the Authority's Internal Control Manual.

Jeffrey J. Pitkin, the Authority's Treasurer, explained that the Members are requested to adopt a resolution approving amendments to the Internal Control Manual. The proposed amendments include: changes to internal contract award processes, consistent with the proposed revisions to the Procurement and Program Contracts Guidelines; incorporation of changes to the Standards for Internal Control in New York State Government issued by the State Comptroller in March 2016; revisions to various staff titles, organizational units, and program areas; and various updating, editorial, and clarifying changes.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin explained that none of the amendments were significant. The proposed changes to the Authority's contract processes establish a clear distinction between procurement contracts and program contracts. However, these changes will not affect the substance of what the Board has historically approved. With respect to the changes to the Standards for Internal Control issued by the State Comptroller, Mr. Pitkin explained that the amendments were revisions, but were not substantive.

In response to an inquiry from Mr. Koh, Noah Shaw, the Authority's General Counsel, explained that the amendments to the Internal Control Manual are reflective of the revisions to contracting procedures and processes that will be presented to the full Board later in the day. These amendments will bring consistency across the Authority with how procurement and program contracts are characterized and handled. In the future, changes to the Authority's contracting guidelines will not require amendments to the Internal Control Manual.

In response to an inquiry from Mr. Koh, Mr. Shaw indicated that the Internal Control Manual will no longer reference the technical details of the contracting processes and procedures.

Therefore, future updates to the Authority's contracting guidelines will not require simultaneous amendments to the Internal Control Manual.

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

Resolution No. 420

RESOLVED, that the amendments to the Internal Control Manual, as submitted at this September 20, 2016 meeting, be and they hereby are recommended to be adopted and approved by the Board.

Mr. Koh indicated that the next item on the agenda concerned a resolution authorizing the issuance of the Residential Solar Loan Revenue Bonds Series 2016 (the "Bonds"). Mr. Pitkin explained that the proposed issuance of Bonds would be in an aggregate principal amount not to exceed \$40,000,000. The Bonds will be issued pursuant to a credit facility to finance loans issued through the Green Jobs – Green New York ("GJGNY") Program to finance the installation of residential photovoltaic systems, referred to as Solar Loans.

The Bonds will be issued to Manufacturers and Traders Trust Company ("M&T"), pursuant to a \$50 million Long-Term Credit Facility, approved by the Members at the September 2015 meeting, which will be amended to increase the facility by an additional \$40,000,000 and extended for an additional twelve months through September 30, 2017. Pursuant to an amended or new Credit Agreement with M&T, the Bonds will be issued in one or more series at various times on or prior to September 30, 2016.

The terms of the bond structure are summarized in the Term Sheet included in the meeting package, and are the same as those approved by the Members at the September 2015 meeting, except that M&T proposed a slight reduction in its commitment fee for credit facility extension.

The proposed Bonds will require the approval of the Public Authorities Control Board, and certain aspects will require approval by the Office of the State Comptroller and the New York State Department of Taxation and Finance.

In response to an inquiry from Mr. Koh, Mr. Pitkin stated that this is an extension of the existing facility, as well as an increase in the size of the facility. Mr. Pitkin indicated that the GJGNY Program has been performing well with respect to loan prepayments and loan default rates. The default rates, in particular, are well below the default rates on the energy efficiency loan portfolio, and well within the boundaries that have been used for structuring purposes to provide sufficient revenues to pay back the M&T credit facility.

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

Resolution No. 421

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 stated that the next item on the agenda was a report from the Director of Internal Audit on recent activities. Mark Mitchell, Director of Internal Audit, stated that an internal audit of the Authority's Solicitation Process was issued and provided to the Members.

Mr. Mitchell reported that the controls for the Authority's procurements are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. This conclusion is the overall result of having looked at several key steps in the Authority's process.

Mr. Mitchell explained that the report notes that all solicitation requests or non-competitive contract awards tested were appropriately approved by management; competitive solicitations were publicized; competitive solicitations were evaluated by technical evaluation panels using criteria consistent with the solicitation document; and that proposals received were appropriately logged.

Mr. Mitchell indicated that the report provides one recommendation to further improve controls by verifying the notice of the solicitation in the New York State Contract Reporter

publication. Mr. Mitchell stated that management concurs with, and has already implemented, this recommendation.

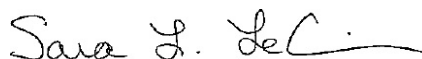
In response to an inquiry from Mr. Koh, Mr. Mitchell stated the solicitation process audit is part of the standard rotation of internal audits. Mr. Mitchell explained that it has been looked at through different lenses, including a recent review by KPMG, LLP. This review was a more comprehensive process overview and demonstrates that the Authority has an outstanding solicitation process. Mr. Mitchell indicated that this report provides the Members with independent assurance that the Authority's controls have been tested and evaluated to ensure those controls are working effectively.

Mr. Koh thanked Mr. Mitchell and stated that the A&FC always appreciates the value of the internal audit function as well as an external audit function, which provide assurances that the Authority is complying with best practices in terms of the way it is operating. In addition, Mr. Koh commended management on another successful completion of the internal audit process and cooperation with the internal audit function.

Mr. Koh stated that the last agenda item concerned other business. Mr. Koh noted that he and Mark Willis were briefed by NY Green Bank ("Green Bank") staff following some discussion at the June 2016 Board meeting on some of their internal processes, and whether the Green Bank's performance objectives and risk analyses are relevant to the A&FC. Mr. Koh and Mr. Willis will be reporting on some of those observations at the Board meeting later in the day and will discuss an appropriate way to track key metrics on behalf of the Board and the A&FC on the performance of Green Bank as it becomes much more operational.

There being no further business, upon motion duly made and seconded, and by unanimous voice vote, the meeting was adjourned.

Respectfully submitted,



Sara L. LeCain
Secretary to the Committee



NYSERDA

ANDREW M. CUOMO
Governor

RICHARD L. KAUFFMAN
Chair

JOHN B. RHODES
President and CEO

NOTICE OF MEETING AND AGENDA

September 9, 2016

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred twenty-ninth (129th) 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 located at 1359 Broadway, New York, New York, on Monday, September 20, 2016, commencing at 11:00 a.m., for the following purposes:

1. To consider the Minutes of the 128th meeting held on June 21, 2016.
2. To consider and act upon a resolution recommending approval of amendments to the Internal Control Manual.
3. To consider and act upon a resolution recommending approval of the issuance of the Residential Solar Loan Revenue Bonds, Series 2016.
4. To receive a report on the recent activities of the Director of Internal Audit.
5. 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>.

Sara L. LeCain
Secretary to the Committee

New York State Energy Research and Development Authority

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1359 Broadway
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**West Valley Site
Management Program**
9030-B Route 219
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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 the bonds and notes and the payment of interest on 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 special act of the Legislature of the State of New York (Title 9-A of Article of the Public Authorities Law of New York, as from time to time amended and supplemented, herein called the “Green Jobs – Green New York Program”), the Authority has been authorized to use innovative financing mechanisms to finance energy efficiency improvements and technologies eligible for net metering through energy cost savings; and

WHEREAS, the Authority authorized the issuance of its "Residential Solar Loan Revenue Bonds, Series 2015 (Federally Taxable)" in the aggregate principal amount of \$50,000,000 (the "Series 2015 Bonds") on October 29, 2015 for the purpose of financing loans through the Green Jobs – Green New York Program for the installation of residential photovoltaic, or PV, systems (“Solar Loans”); and

WHEREAS, the Series 2015 Bonds were issued pursuant to an Indenture of Trust (the "2015 Indenture"), dated October 1, 2015, between the Authority and Manufacturers and Traders Trust Company (“M&T”), as trustee; and

WHEREAS, the Series 2015 Bonds were issued pursuant to a credit agreement (the “2015 Credit Agreement”), dated October 1, 2015, between the Authority and M&T pursuant to which M&T agreed, subject to certain conditions set forth therein, to advance moneys to the Authority to finance Solar Loans; and

WHEREAS, the Authority will issue additional bonds in one or more series at one or more times not later than September 30, 2017, in an aggregate principal amount not to exceed \$40,000,000 to be designated “Residential Solar Loan Revenue Bonds, Series 2016” (the “Bonds”) and with such additional or different designations as may be set forth in the 2016 Credit Agreement

(hereinafter defined) for the purpose of financing loans through the Green Jobs – Green New York Program for the installation of residential photovoltaic, or PV, systems (“Solar Loans”); and

WHEREAS, the Bonds are to be issued pursuant to either a new credit agreement or an amendment to the existing credit agreement (in each case, the “2016 Credit Agreement”), between the Authority and M&T pursuant to which M&T will agree, subject to certain conditions set forth therein, to advance moneys to the Authority to finance Solar Loans; and

WHEREAS, the Authority has entered into an agreement with Wisconsin Energy Conservation Corporation d/b/a Energy Finance Solutions, a not-for-profit corporation, to serve as a loan originator under the Green Jobs – Green New York Program; and

WHEREAS, the Authority has entered into an agreement with Concord Servicing Corporation who will act as the loan servicer and will be the custodian of the original promissory notes for the Solar Loans issued under the Green Jobs – Green New York Program; and

WHEREAS, the proceeds of the Bonds will be used to reimburse the Green Jobs-Green New York Program revolving loan fund for Solar Loans heretofore originated and outstanding and to provide funding for new Solar Loans originated and to be originated thereafter; and

WHEREAS, the Authority will pledge principal and interest payments on, and prepayments of, Solar Loans as security for the Bonds pursuant to the terms of a supplemental or amended indenture of trust (the “2016 Indenture”), a copy of the draft form of which has been set before this meeting ; and

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 Bonds upon the terms and conditions and for the purposes described in the 2016 Credit Agreement and this resolution are hereby authorized. The Bonds shall be issued in one or more series in an aggregate principal amount not to exceed \$40,000,000 and shall bear interest at rates determined in accordance with the 2016 Credit Agreement. Eighty percent (80%) of the principal amount of the Bonds shall bear interest at a fixed rates of interest determined at the time of each advance under the 2016 Credit Agreement not to exceed seven per cent (7%) per annum and twenty percent (20%) of the principal amount of the Bonds shall bear interest at a variable rate of interest determined in accordance with the 2016 Credit Agreement not to exceed eleven per cent (11%). The Bonds shall mature no later than September 30, 2027. The 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 2016 Credit Agreement. The form of the Bonds and all other provisions with respect thereto shall be as set forth in the 2016 Credit Agreement or determined in the manner set forth therein. No Bonds shall be issued pursuant to this resolution after September 30, 2017.

Section 2. Subject to the limitations set forth in Section 1 hereof, the Chair, the Vice Chair, the President and CEO, the Vice Presidents, the Treasurer, or the Secretary of the Authority (collectively, the "Authorized Representatives") are each hereby authorized to determine on behalf of the Authority with respect to the Bonds: the aggregate principal amount, the interest rates the Bonds shall bear and the particular redemption and purchase provisions of the Bonds. Any such determination shall be conclusively evidenced by the execution and delivery by an Authorized Representative of the 2016 Credit Agreement or other document setting forth such determination.

Section 3. The Authorized Representatives are each hereby authorized to execute, acknowledge, and deliver the 2016 Credit Agreement and the 2016 Indenture, with such amendments, supplements, changes, insertions, and omissions to the forms presented to this meeting 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 Bonds shall be executed in the manner and upon the terms and conditions provided in the 2016 Credit Agreement. Manufacturers Traders and Trust Company is hereby designated Trustee for the Bonds. In the event that Manufacturers Traders and Trust Company shall resign as Trustee, or otherwise be unable to act as Trustee, the Authorized Representatives of the Authority are each authorized to designate a successor to act in such capacity.

Section 5. The Authorized Representatives are each hereby authorized and directed to execute and deliver any such other agreements, documents, or certificates, including certificates confirming on behalf of the Authority the accuracy and completeness of information relating to the Bonds, the Authority, the Solar Loans and the Green Jobs – Green New York Program delivered to M&T 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 2016 Credit Agreement or the 2016 Indenture, delivered pursuant thereto.

Section 6. The Bonds shall not be general obligations of the Authority, and shall not constitute an indebtedness of or a charge against the general credit of the Authority. The Bonds will not constitute a debt of the State of New York and the State of New York will not be liable thereon. No owner of the Bonds will have any right to demand payment of the principal of and interest on the Bonds out of any funds to be raised by taxation. As shall be more particularly set forth in the 2016 Credit Agreement, the 2016 Indenture and the Bonds, the liability of the Authority under the Bonds shall be enforceable only to the extent provided in the 2016 Credit Agreement and the 2016 Indenture, and the Bonds shall be payable solely from the revenues and other funds pledged and available for the payment of the Bonds under the terms of the 2016 Credit Agreement and the 2016 Indenture.