

MINUTES OF THE ONE HUNDRED TWENTY-FOURTH MEETING OF THE
AUDIT AND FINANCE COMMITTEE
HELD ON JUNE 18, 2015

Pursuant to a notice dated June 9, 2015, a copy of which is annexed hereto, the one hundred twenty-fourth (124th) meeting of the Audit and Finance Committee (“Committee”) of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY (“Authority”) was convened at 12:00 p.m. on Thursday, June 18, 2015, 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, 19th floor, New York, New York.

The following members of the Committee were present:

Jay Koh, Chair of the Committee
Sherburne Abbott
Richard Kauffman
Jigar Shah

In addition, John R. Rhodes, President and CEO; David L. Margalit, Chief Operating Officer; Janet Joseph, Vice President for Technology and Strategic Planning; Jeffrey J. Pitkin, Treasurer; Noah C. Shaw, General Counsel; Sara L. LeCain, Esq., Senior Counsel and Secretary to the Audit and Finance Committee; Peter V. Mahar, Controller and Assistant Treasurer; Dean Geesler and Bethany Clague from KPMG, LLP; Robert Owen Senzer from McKenna Aldridge & Long, LLP; and various other members of the staff of the Authority were present.

Mr. Koh called the meeting to order and noted the presence of a quorum. He stated that the meeting notice and agenda were mailed to the Committee members and press on June 9, 2015.

Mr. Koh indicated that the first item on the agenda concerned the approval of the minutes of the one hundred twenty-third (123rd) meeting of the Committee held on April 21, 2015.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of the one hundred twenty-third meeting of the Committee held on April 21, 2015, were approved.

Mr. Koh indicated that the next item to be considered was the Authority's Investment Guidelines, Operative Policy and Instructions (June 2015) ("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 notes that the Authority's overall investments increased \$166.4 million to \$1.6 billion, principally from collections for the Renewable Portfolio Standard ("RPS") and the Energy Efficiency Portfolio Standard ("EEPS") that have not yet been expended, and an increase in the sale of auction allowances under the Regional Greenhouse Gas Initiative ("RGGI"), an increase in NY Green Bank from the collection of a receivable from the prior year. These increases were offset in part by decreases in certain other funds as described in the meeting package.

As noted in the memorandum, the Authority's investment balance of \$1.6 billion is offset by commitments for contractual obligations and pending contract awards totaling over \$2.4 billion, reflecting the nature of the Authority's performance-based funding arrangements and the timing differences between the receipt, commitment, and expenditure of funds it administers.

Interest earnings for the fiscal year that ended March 31, 2015 were \$9.7 million and the rate of return was about 0.7%, an increase of \$1.6 million from the prior year.

The Investment Report includes a report from the independent 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.

The Investment Guidelines set forth the policies and procedures for the investing, monitoring and reporting of the Authority's investments. The Members are required to review and approve the policy annually pursuant to statute. No changes are recommended to the Guidelines.

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 year ended March 31, 2015. 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 dependents for the Authority's share of retiree health insurance premiums provided through the New York State Health Insurance Program.

The Authority has contributed \$28.2 million to the Trust, has earned about \$6.1 million in investment income, has expended about \$3.4 million in benefit payments, and incurred about \$120,000 in administrative expenses, leaving a balance of \$30.8 million in the Trust as of March 31, 2015.

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 at March 31, 2015 was \$34.8 million, reflecting an appreciation of \$4 million in the Trust's assets and resulting in a 40.9% total return on the Authority's contributions for the 5-year period.

No substantive changes are recommended to the Investment Policy Statement; 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. Kauffman, Mr. Pitkin indicated that staff worked with an investment advisor to develop a wide-range investment approach.

In response to an inquiry from Mr. Koh, Mr. Pitkin explained that the Investment Policy Statement deals with overall guidelines and the Committee is being asked to reaffirm that the investment strategy is consistent with those guidelines.

Mr. Koh stated that a resolution considering approval of the 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 stated that the next item concerned the Authority's 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 annual audited Financial Statements for the fiscal year ended March 31, 2015. The independent auditors will issue an unmodified opinion on the Financial Statements.

The Members are requested to adopt a resolution approving the annual audited financial statements for the fiscal year ended March 31, 2015. The financial statements include an unmodified, clean opinion from the independent auditors, KPMG, LLP.

The Members' meeting packet includes a detailed analysis of the financial statements, including explanations for fluctuations in comparison to the prior fiscal year. Therefore, Mr. Mahar only highlighted a few items.

Total revenue decreased from \$894.4 million to \$788.4 million primarily due to decreases in System Benefits Charge funding of \$148.8 million, principally due to \$90 million of non-

recurring revenues in the prior year provided for a portion of the initial capitalization of NY Green Bank. Additionally, collections for the New York Energy Smart Program expired during fiscal year 2014-2015. RGGI allowance proceeds decreased by \$28.8 million due to a smaller number of allowances being sold than in the prior year. These decreases were offset in part by an increase in RPS revenue collections of \$38.1 million due to scheduled increases in utility assessment collections, an increase in third party reimbursements of \$21.1 million principally related to new funding for the Indian Point Energy Center Reliability Contingency Program, and new funding of \$10 million from the New York Power Authority for the Upstate Strategic Fuel Reserve.

Total expenses increased from \$555.8 million to \$675.1 million. The increase is primarily due to an increase in program expenditures and other operating costs.

Program expenditures increased by \$140.2 million primarily due to increased expenditures in the RPS, EEPS, Technology and Market Development, and RGGI programs. Other operating costs increased by \$3.3 million primarily from information technology consulting services to support the development of several corporate technology initiatives.

Total assets increased by \$137 million to \$1.75 billion. The increase in cash and investments of \$206.2 million was principally due to scheduled collections received but not yet spent under the RPS and the RGGI programs.

Other assets decreased by \$71.3 million principally due to a \$94 million decrease in the accrued receivable for EEPS program expenses in excess of collections and transfers. Partially offsetting the decrease in other assets was a \$30.8 million increase in loans outstanding through the Green Jobs-Green New York (“GJGNY”) Program due to additional loans issued, and the procurement of strategic gasoline reserves valued at \$12.9 million as of March 31, 2015.

Total liabilities increased \$23.5 million. The long-term portion increased \$27.4 million primarily due to \$30 million in borrowing under a three year note to fund the GJGNY Loan Program. Short term liabilities decreased by \$3.9 million primarily due to a reduction in the amount owed to

Consolidated Edison Companies of New York, Inc., for the System Wide Demand Reduction Program as the program winds down, and in the amount owed for the RGGI settlement agreement as the underlying contracts are slated to expire soon.

The Authority's Net Position increased overall from \$1.5 billion to \$1.6 billion. The restricted portion of the Net Position increased from \$1.47 billion to \$1.58 billion primarily from unexpended funds received for particular specified programmatic purposes primarily for the RPS and RGGI programs.

The unrestricted portion of the net position (which can be used to finance operations without constraints established by debt covenants, enabling legislation, or other legal requirements) decreased from \$3.9 million to \$3.6 million. Unrestricted net position at March 31, 2015 represents .5% of total expenses budgeted for fiscal year 2015-16 and are anticipated to be sufficient to meet working capital needs and to meet unanticipated expenditures, such as protecting public health and safety at the Western New York Nuclear Service Center.

NYSERDA's OPEB Trust is presented as a Fiduciary fund in the basic financial statements. Employer contributions to the Plan for the fiscal year were \$3.6 million, and the fund has a Net Position of \$33.9 million.

The meeting materials included separate stand-alone financial statements for NY Green Bank. The financial statements report the NY Green Bank's first four investments committing \$56.4 million in capital to its counterparties.

During this start up period there were no operating revenues earned and operating expenses were greater than non operating revenues resulting in a decrease of total assets and net position by \$1.9 million. Total Net Position at March 31, 2015 was \$216.3 million.

Included in the meeting materials were 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. Koh, Mr. Pitkin stated that the Authority has received clean audits for at least 24 years.

In response to an inquiry from Mr. Koh, Mr. Pitkin indicated that the financial statements only report revenues and expenditures. Therefore, any deficits would not appear specifically, but rather as an adjustment in funding on a cash basis.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin explained that the NY Green Bank financial statements detail the net costs of startup, engineering, legal fees, due diligence and other expenses, some of which are reimbursed by counter parties. In addition, revenues will be included over time and may be amortized. Mr. Koh suggested that the Members continue to review how to amortize these revenues.

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 auditor.

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. 403

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

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

Resolution No. 404

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee, approving and adopting the 2014-2015 Annual Investment Report and the Investment Guidelines, Operative Policy and Instructions (June 2015), substantially in the form submitted to the Committee.

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

Resolution No. 405

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee, approving and adopting the NYSERDA OPEB Trust Investment Report for the year ended March 31, 2015 and the Policy Statement for the NYSERDA OPEB Trust (Retiree Health Insurance Benefits Trust), substantially in the form submitted to the Committee.

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

Resolution No. 406

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the

resolution submitted to the Committee, approving the Authority's Financial Statements as of March 31, 2015.

Mr. Koh then stated that the next agenda item concerned the appointment of an independent auditor. The Members are asked to approve a resolution appointing KPMG, LLP as the independent auditors of the Authority and for the independent audit of the NY Green Bank for the fiscal year ending March 31, 2015. Fees and expenses will not exceed \$86,000.

KPMG was competitively selected under an RFP issued in 2011. The Authority may renew the agreement annually for four, one-year extensions with annual adjustments to the fees. This would be the final renewal of the agreement. A Request for Proposals will be issued in fall 2015 to solicit auditing services for the Authority and the NY Green Bank.

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.

Staff have been satisfied with the services rendered by the independent auditors and recommend their reappointment.

In response to an inquiry from Mr. Koh, Mr. Pitkin explained that the independent auditors are required to rotate the lead audit partner at least every five years. Mr. Pitkin indicated that there are no prohibitions on the same firm being selected under consecutive solicitations, but staff would investigate if other authorities have established requirements that would limit the number of consecutive years an audit firm may serve as an independent auditor for the same entity.

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

Resolution No. 407

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee, appointing KPMG, LLP as the Authority's independent auditor for fiscal year 2015-2016.

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 no issuances completed during the 2014-15 fiscal year.

The schedule of bonds outstanding reports information on the Authority's bonds outstanding as of March 31, 2015, which totaled about \$3.4 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. 408

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution in substantially the same form as the resolution submitted to the Committee, adopting and approving for submission pursuant to Section 2800 of the Public Authorities Law, the Authority's Annual Bond Sales Report for the fiscal year April 1, 2014 through March 31, 2015.

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 \$50,000,000 in connection with State Revolving Fund Revenue Bonds ("SRF Bonds") expected to be issued by EFC through the State Clean Water Revolving Fund.

The Bonds will be issued to finance residential energy efficiency loans issued pursuant to the GJGNY Program. Specifically, \$30,000,000 of the Bond proceeds will be used to redeem the Authority's Residential Energy Efficiency Financing Revenue Notes Series 2014 issued in September 2014 ("2014 Notes"). The remaining Bond proceeds (up to \$20,000,000) will be used to finance additional loans anticipated to be issued through the GJGNY Program through March 2016.

The Bonds will include \$30,000,000 offered through subsidized financing. As long as the Authority is in compliance with its obligations under the implementing Project Financing Agreement with EFC, the Authority will benefit from an interest rate subsidy of one-half of the interest rate on EFC's SRF Bonds. The balance of the Bonds in an amount not to exceed \$20,000,000 will be unsubsidized, with the Authority's interest rate being determined by the interest rate on EFC's SRF Bonds.

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% (prior to EFC's subsidy).

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.

In response to an inquiry from Mr. Kauffman, Mr. Pitkin indicated that the 2014 Notes were short-term notes that were intended to bridge the gap until the Authority could participate in the traditional EFC financing program.

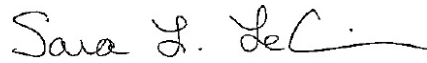
Whereafter, upon motion duly made and seconded, and by unanimous voice vote of the Committee members present, the following resolution was adopted.

Resolution No. 409

RESOLVED, that the Audit and Finance Committee recommends that the Members of the Authority adopt a resolution authorizing the issuance of a series of bonds, substantially in the form submitted to the Committee.

Mr. Koh then asked if there were any other matters the Committee members wished to discuss. There being none, 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 written in a cursive style with a long horizontal flourish extending to the right.

Sara L. LeCain
Secretary to the Committee



NOTICE OF MEETING AND AGENDA

June 9, 2015

TO THE MEMBERS OF THE AUDIT AND FINANCE COMMITTEE:

PLEASE TAKE NOTICE that the one hundred twenty-fourth (124th) 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, 19th floor, New York, New York, on Thursday, June 18, 2015, commencing at 12:00 p.m., for the following purposes:

1. To consider the Minutes of the 123rd meeting held on April 21, 2015.
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 2015).”
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, 2015 and the “Investment Policy Statement for the NYSERDA OPEB Trust (June 2015).”
4. To consider and act upon a resolution recommending approval of the Financial Statements of the Authority and the NY Green Bank for fiscal year 2014-15.
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 2015-16.
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.

New York State Energy Research and Development Authority

Albany
 17 Columbia Circle, Albany, NY 12203-6399
 (P) 1-866-NYSERDA | (F) 518-862-1091
 nysesda.ny.gov | info@nysesda.ny.gov

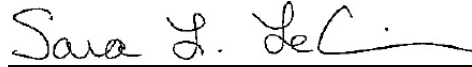
Buffalo
 726 Exchange Street
 Suite 821
 Buffalo, NY
 14210-1484
 (P) 716-842-1522
 (F) 716-842-0156

New York City
 1359 Broadway
 19th Floor
 New York, NY
 10018-7842
 (P) 212-971-5342
 (F) 518-862-1091

**West Valley Site
 Management Program**
 9030-B Route 219
 West Valley, NY
 14171-9500
 (P) 716-942-9960
 (F) 716-942-9961

9. 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 two business days of 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