

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON SEPTEMBER 21, 2016

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:04 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on September 16, 2016; and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Shelly L. Cohen, Committee Chair
Elkan Abramowitz
Mark Fischl**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Joseph Branca, Chief Financial Officer; Jon Mostel, General Counsel & Secretary to the Board of Trustees; Bobbi O'Connor, Deputy General Counsel & Assistant Secretary to the Board of Trustees; Kenneth Kane, Managing Director of Financial Oversight; John Little, Managing Director of Strategy and Policy; Donna Mongiardo, Controller; Paul Acerra, Director of Finance; Corey Horowitz, Director of Risk Management; and Kathleen Mitterway, Director of Audit.

Representing KPMG were Todd Fowler and Nick DiVirgilio.

Representing AJ Gallagher was T.J. Bradley.

Representing PSEG LI were David Lyons, Vice President of Business Operations; Gary Ahern, Director of Finance; and Robert A. Green, Insurance and Risk Manager.

Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the May 18, 2016 Committee meeting.

Chair Cohen made a motion to accept the minutes of the May 18, 2016 meeting. Upon motion duly made and seconded, the minutes were approved unanimously.

Trustee Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report and Financing Update.

Ms. Mongiardo presented LIPA's financial results through August 31, 2016, and Mr. Lyons and Mr. Ahern of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees.

Mr. Horowitz presented the Hedge Report and then took questions from the Trustees. Mr. Branca presented the Financing update and then took questions from the Trustees.

Chair Cohen stated that next item on the agenda is Internal Audit Activities, which would be presented by Kathleen Mitterway.

Ms. Mitterway gave a presentation regarding the Authority's internal audit activities and then took questions from Trustees.

Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Replacement of Letter of Credit Provider, which would be presented by Joseph Branca.

Mr. Branca presented the following item and then took questions from the Trustees:

Requested Action

Approval of Letter of Credit Provider.

On May 18, 2016, the Authority's Board of Trustees adopted a resolution approving the selection of various banks to enter into lines of credit, revolving credit agreements or other credit facilities or to issue letters of credit in support of the Authority's bonds and notes. Those selections were made by a selection committee consisting of three Authority staff, with the assistance of the Authority's financial advisor, who evaluated proposals received from nine banks in response to the Authority's Request for Proposals for Letter of Credit Facilities, Direct Placement Floating Rate Notes and Revolving Credit Agreements (the "Bank Facilities RFP") One of the selections approved by the Board related to a proposal from the Bank of Nova Scotia to provide a letter of credit to support \$75 million principal amount of Series GR-3 General Revenue Notes. Bank of Nova Scotia subsequently withdrew its proposal. The selection committee determined that a letter of credit should be entered into with the next best ranked proposal in the letter of credit portion of the Bank Facilities RFP.

Therefore, staff recommends that the Finance and Audit Committee recommend that the Board adopt a resolution to replace the selection of the letter of credit from Bank of Nova Scotia to support \$75 million principal amount of Series GR-3 General Revenue Notes that was approved by the Board in May but subsequently withdrawn by the proposer, with the selection of a proposal from U.S. Bancorp to provide a letter of credit to support \$100 million principal amount of Series GR-3 General Revenue Notes.

Recommendation

Based upon the foregoing, I recommend that the Trustees adopt the attached resolution.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING APPROVAL OF THE SELECTION OF A BANK TO PROVIDE A LETTER OF CREDIT

WHEREAS, on May 13, 1998 Long Island Power Authority (the "Authority") adopted its Electric System General Revenue Bond Resolution (the "General Resolution"), which authorizes bonds, notes or other evidences of indebtedness of the Authority as special obligations of the Authority for any lawful purpose of the Authority; and

WHEREAS, pursuant to the Authority's Request for Proposals for Letter of Credit Facilities, Direct Placement Floating Rate Notes and Revolving Credit Agreements (the "Bank Facilities RFP"), the Authority received proposals from a number of banks to, among other things, issue letters of credit in support of the Authority's bonds and notes; and

WHEREAS, on May 18, 2016, the Authority's Board of Trustees adopted a resolution approving staff's recommendation to accept a proposal from the Bank of Nova Scotia to provide a letter of credit to support \$75 million principal amount of Series GR-3 General Revenue Notes; and

WHEREAS, Bank of Nova Scotia subsequently withdrew its proposal; and

WHEREAS, staff recommends that the proposal from U.S. Bancorp for a letter of credit, which ranked second in the evaluation of the letter of credit portion of the Bank Facilities RFP, should be accepted;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

The Finance and Audit Committee of the Board Trustees hereby recommends that the full Board adopt a resolution (i) approving the selection of U.S. Bancorp to provide a letter of credit to support \$100 million principal amount of the Authority's Series GR-3 General Revenue Notes, (ii) authorizing and directing each of the Chief Executive Officer, Chief Financial Officer, Managing Director of Financial Oversight, General Counsel and Secretary and Controller (the "Authorized Officers") to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for carrying out and implementing this resolution and each of the documents authorized hereby and (iii) designating each Authorized Officer as Authorized Representative (as defined in the General Resolution) in connection with such matters.

Chair Cohen stated that the next item on the agenda is a discussion of LIPA's Insurance Coverage, which would be presented by Corey Horowitz, Robert A. Green and T.J. Bradley.

Mr. Horowitz, Mr. Green and Mr. Bradley discussed LIPA's Insurance Coverage and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is a discussion of KPMG's 2016 Audit Plan, which would be presented by Todd Fowler and Nick DiVirgilio

Mr. Fowler and Mr. DiVirgilio discussed KPMG's 2016 Audit Plan and then took questions from the Trustees.

At approximately 9:06 a.m. Chair Cohen stated that the Committee would adjourn to Executive Session to discuss personnel matters with LIPA's Director of Audit. Chair Cohen stated that no votes would be taken and that the Committee would not be returning to public session.