

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON SEPTEMBER 27, 2017

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:03 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on September 22, 2017 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
Thomas J. McAteer**

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, Vice President of Policy, Strategy and Administration and Assistant Secretary to the Board of Trustees; Rick Shansky Vice President of Operations Oversight; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; and Kathleen Mitterway, Director of Audit.

Representing PSEG LI were David Lyons, Vice President of Business Services; Markus Ramlall, Director of Finance; and Steven Oster, Director of Asset Portfolio Optimization.

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 July 26, 2017 Committee meeting.

Upon motion duly made and seconded, the minutes of the July 26, 2017 meeting were approved unanimously.

Chair Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report.

Ms. Mongiardo presented LIPA's financial results through August 2017, and Mr. Lyons and Mr. Ramlall 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.

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 the recommendation for approval of the establishment of Section 115 OPEB Trust, which would be presented by Joseph Branca.

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

Requested Action

The Finance and Audit Committee of the Board of Trustees is being requested to recommend to the Board of Trustees the approval of a resolution authorizing the Long Island Power Authority (the "Authority") to enter into an Other Post-Employment Benefits ("OPEB") Trust Agreement ("OPEB Trust" or "Trust") to meet the future obligations for post-employment benefits ("OPEB Expenses") provided to former employees of the Authority who meet the eligibility requirements, including their dependents and beneficiaries (collectively, the "Beneficiaries"). The Finance and Audit Committee of the Board of Trustees is also requested to recommend the approval of an Investment Policy for the Trust assets, and to appoint the Chief Financial Officer as "Trustee" and the Chief Executive Officer as the "Authorized Officer".

Background

On December 17, 2014, the Trustees approved the establishment of an OPEB account for the purpose of establishing a reserve for the payment of future OPEB Expenses for both the

Authority and PSEG Long Island employees. Currently, the Authority is depositing the actuarially determined annual expense into an existing OPEB account, however, those assets remain available, if deemed necessary by the Chief Executive Officer or the Chief Financial Officer, to pay operating expenses and debt service of the Authority. Therefore, those assets do not qualify as contributions to fund the OPEB liability under Governmental Accounting Standards (“GASB”). The Authority is requesting to establish a Section 115 Trust dedicated to OPEB Expenses for amounts related to the Authority employees to obtain the accounting advantages provided under GASB Statement No. 75 as discussed below.

The PSEG Long Island OPEB liability is a contractual liability and not subject to GASB Statement No. 75, and therefore, no benefit would be derived by depositing those assets into an irrevocable trust. Its actuarially determined annual funding will continue to be deposited in the existing OPEB account.

Discussion

In June 2015, GASB issued Statement No. 75 addressing accounting and financial reporting for OPEBs provided to the employees of state and local governmental employers. Under GASB Statement No. 75, the Authority may recognize more advantageous accounting treatment if its OPEB plan assets are maintained in a dedicated trust. Such advantages include:

- Increased assumed discount rate used in the actuarial assumptions;
- A direct offset of the OPEB liability with the OPEB Trust assets thereby improving the Statement of Net Position (balance sheet); and,
- Reduced annual employer contribution and expense.

The Authority is recommending the establishment of a tax-exempt Section 115 OPEB trust. A Section 115 OPEB trust does not require an IRS private letter ruling. As such the Section 115 OPEB trust is generally less expensive than a Voluntary Employee’s Benefit Association (“VEBA”) trust. A Section 115 OPEB trust qualifies as a dedicated trust under GASB Statement No. 75, as the assets of the plan, contributions and earnings thereon are irrevocable. The Section 115 OPEB Trust plan assets will provide OPEBs to plan members, and the plan assets are legally protected from creditors.

As of August 31, 2017, the Authority has approximately \$138.0 million in the existing OPEB account. To minimize the all-in-cost of establishing the trust, the Authority is recommending to fully fund the OPEB Trust using the existing funds available in the OPEB account. Depending on the investment return assumed on plan assets, the initial deposit to fully fund the Trust will range from \$16 million to \$21 million.

In 2018, the actuarial study will be updated to reflect this transfer of funds and appropriately recalculate the future funding requirements of both the Authority’s and PSEG Long Island’s OPEB obligations. Upon creation of the OPEB Trust, which is irrevocable, amounts deposited in the OPEB Trust will reduce the Authority’s unfunded OPEB liability.

Authorization is also requested to recommend the appointment of the Chief Financial Officer as “Trustee”, and the Chief Executive Officer as the “Authorized Officer” under the Trust.

The Authorized Officer is authorized to give directions to the Trustee pursuant to the terms of the Trust Agreement.

OPEB trusts are considered fiduciary funds in accordance with Governmental Accounting Standards and financial data for component units that are fiduciary in nature are only required to prepare a Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Trust will also be required to have an investment policy (attached hereto) which is consistent with the existing OPEB investment policy and issue a separate Investment Report. The Authority does not expect any incremental audit fee related to these additional statements.

Recommendation

The Authority is recommending the establishment of a Trust to be known as the Long Island Power Authority OPEB Trust, which will be an entity separate from the Authority, for the exclusive purpose of providing funds to provide OPEB benefits, with the intent that (i) the income of the Trust will be exempt from federal and state income tax (under Internal Revenue Code Section 115 with respect to federal income tax), (ii) transfers to the Trust will not be taxable to Beneficiaries, (iii) contributions to which will constitute funding of OPEB under GASB Statement No. 75, and (iv) all assets of the Trust will be irrevocably dedicated to providing OPEB benefits and paying expenses of administering the Trust, and will not be available to any creditors of the Authority.

The Authority is recommending to fully fund the OPEB Trust for the Authority's OPEB liability with an initial deposit ranging from \$16 million to \$21 million.

Based on the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

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

resolution:

RESOLUTION RECOMMENDING TO THE BOARD OF TRUSTEES THE AUTHORIZATION TO ESTABLISH AND EXECUTE AN OTHER POSTEMPLOYMENT BENEFITS ("OPEB") TRUST AGREEMENT ("OPEB TRUST" OR "TRUST")

WHEREAS, the Finance and Audit Committee of the Board of Trustees (the "Committee") of the Long Island Power Authority ("LIPA" or the "Authority") has determined that it is desirable to recommend to the Board of Trustees of the Authority the establishment of a Trust to be known as the Long Island Power Authority OPEB Trust, which will be an entity separate from the Authority, for the exclusive purpose of providing funds for OPEB benefits to former employees of the Authority who meet the eligibility requirements, including their dependents and beneficiaries; and

WHEREAS, in connection with the establishment of the Trust, the Committee is desirous of recommending: (i) the appointment of the Chief Financial Officer as Trustee and the Chief Executive Officer as the Authorized Officer pursuant to the terms of the Trust; and (ii) the

adoption of an investment policy consistent with the Authority's investment policy as it relates to current OPEB obligations.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends to the Board of Trustees the authorization of the following:

- 1. The establishment of an Other Post Employment Benefit Trust to be known as Long Island Power Authority OPEB Trust;**
- 2. The appointment of the Chief Financial Officer as Trustee and the Chief Executive Officer as the Authorized Officer pursuant to the terms of the Trust; and**
- 3. The adoption of the investment policy consistent with the Authority's investment policy as it relates to current OPEB obligations.**

Chair Cohen stated that the last item on the agenda is the Power and Fuel Supply Management and Commodity Hedging update by PSEG Energy Resources & Trade which would be presented by Steven Oster.

Mr. Oster gave a presentation regarding Power and Fuel Supply Management and Commodity Hedging Update and then took questions from the Trustees.

At approximately 8:37 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 in executive session and that the Committee would not be returning to public session.