

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING**

**HELD ON MAY 18, 2016**

*The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:05 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on May 13, 2016; and electronic notice posted on the Authority's website annually.*

*The following Trustees of the Authority were present:*

**Sheldon L. Cohen, Committee Chair  
Elkan Abramowitz, Committee Member  
Matthew Cordaro**

**Representing the Authority were Thomas Falcone, Chief Executive 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 Finance; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; Kathleen Mitterway, Director of Audit; Rick Shansky, Managing Director of Contract Oversight; John Little, Managing Director of Policy and Strategy; Ben Chu, Director of Power and Fuel Supply Services; and Sanna Wong Chen, Director of Finance.**

**Representing PFM was Michael Mace and representing Barclays Capital was Hiran Cantu.**

**Representing PSEG LI were David Lyons, Vice President of Business Services; Scott Payant, Senior Manager of Treasury; Scott Jennings, Vice President of Finance; Steven Oster, Director of Enterprise Risk Strategy; and Laurent Pommier, Vice President Risk Management and Chief Risk Officer.**

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

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*Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the March 21, 2016 Committee meeting.*

*Trustee Abramowitz made a motion to accept the minutes of the March 21, 2016 meeting. Motion was duly seconded, and the minutes were approved unanimously.*

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*Trustee Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report. Ms. Mongiardo presented LIPA's financial results through March 2016, and Mr. Lyons and Mr. Payant of PSEG LI reported on the PSEG LI Operating Results. Mr. Horowitz presented the Hedge Report.*

*Mr. Falcone, Ms. Mongiardo, Mr. Lyons, Mr. Payant and Mr. Horowitz then took questions from Trustees.*

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*Chair Cohen stated that next item on the agenda is presentation of Quarterly Financial Results which would be presented by Ms. Mongiardo.*

*Ms. Mongiardo gave a presentation regarding the Authority's Quarterly Financial Results and then took questions from Trustees.*

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*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.*

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*Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Engagement of Cash Management/Advisory Services which would be presented by Mr. Kane.*

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

### **Requested Action**

The Finance and Audit Committee (“Committee”) of the Board of Trustees (“Board”) is being requested to approve a resolution recommending that the Board authorize the Chief Executive Officer or his designee to engage PFM Asset Management LLC (“PFMAM”), a separate and distinct subsidiary of the PFM Group regulated by the Securities and Exchange Commission, to provide Cash Management/Advisory Services to the Long Island Power Authority (the “Authority”) for a term of five years.

### **Background**

In March 2016, the Authority issued Requests for Proposals (“RFP”) seeking experienced firms to provide Cash Management/ Advisory and Custody services for the investment and management of the short-term funds contained in the Authority’s Operating, Construction, Grant, Rate Stabilization, and UDSA portfolios. These services are currently provided to the Authority by JPMorgan Chase Bank pursuant to a contract that expires in September 2016. The following nine firms responded to the RFP:

- J.P. Morgan Asset Management Inc. (a subsidiary of JPMorgan Chase & Co.)
- U.S. Bancorp Asset Management, Inc. (a subsidiary of U.S. Bancorp )
- PFM Asset Management LLC (a subsidiary of PFM Group)
- RBC Global Asset Management Inc. (a subsidiary of Royal Bank of Canada)
- State Street Global Advisors (a subsidiary of State Street Bank and Trust Company)
- Wells Capital Management (a subsidiary of Wells Fargo Bank, N.A.)
- TD Private Client Group (a subsidiary of TD Bank, N.A.)
- KeyBank Institutional Asset Services (a division of KeyBank N.A.)
- Northern Trust Asset Management (a subsidiary of The Northern Trust Company)

One additional bidder’s package arrived after the deadline and was therefore not considered.

A selection committee comprised of Authority staff members Kenneth Kane, Managing Director of Finance, Denise de Reyna, Treasurer, and David Feldman, Budget Analyst, carefully examined each proposal and determined that they all met the minimum threshold criteria for the services proposed. The selection committee then evaluated the proposals based on criteria set forth in the RFP and scored each proposal for technical ability and cost. Based on that evaluation, the committee selected the three highest scoring firms for

telephone interviews, which were conducted in May 2016, including JP Morgan Asset Management, U.S. Bancorp Asset Management, and PFMAM.

As a result of the written submissions, telephone interviews, and an assessment of the Authority's needs, the selection committee determined that PFMAM is best suited to provide Cash Management/Advisory services to the Authority. In this regard, the strengths of PFMAM include:

- Focused experience in providing investment advice to local governments, their agencies, and public power entities;
- Extensive experience with asset management for separately managed accounts; PFMAM currently provides such services to 440 clients, 78 of which are utilities and other authorities;
- Excellent short-term fixed income portfolio management strategies as well as an operating cash enhanced asset approach with a keen understanding of governmental entities cash flow nuances;
- Excellent insight into the Authority's operations and cash flow patterns, stakeholder needs and challenges;
- Extensive familiarity with New York State statutes that regulate the Authority's investments and an in-depth understanding of the Authority's investment guidelines;
- World-class systems and reporting capabilities;
- Strong internal controls and compliance procedures;
- Large independent research and credit analysis group;
- Tied for lowest cost proposal with a not-to-exceed cost structure that limits the cost of these services to the Authority;
- Experience working with U.S. Bank as a custodian, who the selection committee is recommending as custodian based on an independent and careful examination of each proposer's qualifications.

The staff selection committee scored the PFMAM proposal the highest among the six proposals on a technical basis and their proposal was tied for the lowest cost and has a not-to-exceed cost structure. The cost of Custody Services and Cash Management/Advisory Services awarded in the Authority's RFP will be less than the Authority currently pays for such services. The staff selection committee further believes that the Authority is best served by separating the Cash Management/Advisory Services and the Custody Services for its investments.

### **Recommendation**

Based upon 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 duly made and seconded, and the Trustees unanimously adopted the following resolution:*

## **RECOMMENDATION TO APPROVE ENGAGEMENT OF FIRM TO PROVIDE CASH MANAGEMENT/ADVISORY SERVICES**

RESOLVED, that consistent with the attached memorandum, the Finance and Audit Committee of the Board of Trustees recommends that the Board authorize the Chief Executive Officer or his designee to engage PFM Asset Management LLC to provide cash management/advisory services to the Long Island Power Authority and its wholly owned subsidiary Long Island Lighting Company d/b/a LIPA (together “LIPA”) on an as-needed basis, based on terms and conditions substantially consistent with LIPA’s standard form of consulting agreement with such modifications as the individual executing same shall consider reasonable as demonstrated by such individual’s execution of same.

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*Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Engagement of Custody Services which would be presented by Mr. Kane.*

*Mr. Kane presented the following item:*

### **Requested Action**

The Finance and Audit Committee (“Committee”) of the Board of Trustees (“Board”) is being requested to approve a resolution recommending that the Board authorize the Chief Executive Officer or his designee to engage U.S. Bank Institutional Trust and Custody, a subsidiary of U.S. Bancorp, (“U.S. Bank”) to provide investment custody services to the Long Island Power Authority (the “Authority”) for a term of five years.

### **Background**

In March 2016, the Authority issued a Request for Proposals (“RFP”) seeking experienced firms to provide Custody Services for the Authority’s Operating, Construction, Grant, Rate Stabilization, and UDSA investment portfolios. These services are currently provided to the Authority by JPMorgan Chase Bank pursuant to a contract that expires in September 2016. The following six firms responded to the RFP:

- JPMorgan Chase Bank (a subsidiary of JPMorgan Chase & Co.)
- U.S. Bank Institutional Trust and Custody (a subsidiary of U.S. Bancorp )
- Wells Fargo Institutional Retirement Trust (a subsidiary of Wells Fargo Bank, N.A.)
- TD Wealth (a subsidiary of TD Bank, NA)
- KeyBank Institutional Asset Services (a subsidiary of KeyBank NA)
- Northern Trust Asset Management (a subsidiary of the Northern Trust Company)

One additional bidder’s package arrived after the deadline and was therefore not considered.

A selection committee comprised of Authority staff members Kenneth Kane, Managing Director of Finance, Denise de Reyna, Treasurer, and David Feldman, Budget Analyst, carefully examined each proposal and determined that they all met the minimum threshold criteria for the services proposed. The selection committee then evaluated the proposals based upon the criteria set forth in the RFP and scored each proposal for technical ability and cost.

Based on their review of the proposals, the selection committee determined that U.S. Bank is best suited to provide Custody Services to the Authority.

In this regard, the strengths of U.S. Bank include:

- One of only four domestic banks to carry S&P's A+ rating;
- Approximately 10% of their client base is public and municipal entities;
- Provides similar services to 48 local transportation authorities and utility clients;
- Business focus is on middle market clients—those with under \$4 billion in assets;
- Experienced team to assist the Authority staff through the transition and thereafter;
- World-class systems and reporting capabilities;
- Strong internal controls and compliance; and
- Lowest fee of respondents.

The staff selection committee scored the U.S. Bank proposal the second highest among the six proposals on a technical basis and their proposal was the lowest cost, thereby providing the best overall value. The cost of Custody Services and Cash Management/Advisory Services awarded in the Authority's RFP will be less than the Authority currently pays for such services. The staff selection committee further believes that the Authority is best served by separating the Cash Management/Advisory Services and the Custody Services for its investments.

### **Recommendation**

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

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

### **RECOMMENDATION OF APPROVAL OF ENGAGEMENT OF FIRM TO PROVIDE INVESTMENT CUSTODY SERVICES**

**RESOLVED**, that consistent with the attached memorandum, Finance and Audit Committee of the Board of Trustees recommends that the Board authorize the Chief Executive Officer or his designee to engage U.S. Bank Institutional Trust and Custody to

provide investment custody services to the Long Island Power Authority and its wholly owned subsidiary Long Island Lighting Company d/b/a LIPA (together “LIPA”) on an as-needed basis, based on terms and conditions substantially consistent with LIPA’s standard form of consulting agreement with such modifications as the individual executing same shall consider reasonable as demonstrated by such individual’s execution of same.

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*Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Providers of Letters of Credit and Revolving Credit Agreement and Certain Changes in Permitted Uses of Proceeds of Authority Notes and the Revolving Credit Agreement which would be presented by Mr. Kane.*

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

#### **Requested Actions**

*Recommendation for Approval of Selection of Banks pursuant to Request for Proposals.*

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 has received nine proposals from 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. A selection committee consisting of three Authority staff, with the assistance of the Authority’s financial advisor, has reviewed these proposals and has concluded that the Authority should accept a proposal from Bank of Nova Scotia to provide a letter of credit to support \$75 million principal amount of Series GR-3 General Revenue Notes. The staff committee also concluded that we should extend the term of the existing letter of credit issued by T.D. Bank, N.A. securing our Series GR-1 General Revenue Notes for one year. The staff committee also recommend that that we accept an offer from Royal Bank of Canada, the issuer of the letter of credit securing our Series CP-1 Commercial Paper Notes, to lower its letter of credit fee. Finally, the staff committee determined that we should enter into an extension and amendment of the existing revolving credit agreement among the Authority, Toronto Dominion (Texas) LLC, as Administrative Agent the (“Revolving Credit Agreement”) and various other banks named therein for an additional year. To implement these changes, the Authority will be entering into new or amended agreements with such banks pursuant to an authorization to do so adopted by the Trustees at the December 16, 2015 meeting. Such authorization contemplates that the Trustees would approve the banks selected pursuant to the Bank Facility RFP and you are requested to adopt a resolution indicating such approval.

*Certain Changes in Permitted Uses of Proceeds of Authority Notes and the Revolving Credit Agreement; adoption of Amended and Restated Nineteenth Supplemental Resolution.*

The Authority staff has determined that from time to time it will be possible to achieve debt service savings by refunding a portion of our outstanding bonds using proceeds of the

Authority's Commercial Paper Notes and General Revenue Notes (collectively, the "CP and General Revenue Notes"). Permitting our existing note programs to be used for this purpose will be more cost effective and efficient than authorizing new separate series of notes or bonds to refund such bonds. The Authority's Fourth Supplemental Subordinated Resolution, adopted August 6, 2014, and the Authority's Twenty-Third Supplemental General Resolution, adopted August 6, 2014, set forth specific purposes for which the Authority's Commercial Paper Notes and General Revenue Notes, respectively, may be issued. Such purposes do not presently include refunding outstanding bonds of the Authority. However such resolutions permit the Authority, by subsequent resolution of the Trustees, to specify additional purposes for which the CP and General Revenue Notes may be issued. The Trustees are therefore requested to adopt a resolution authorizing the use of proceeds of the CP and General Revenue Notes for the purpose of refunding Authority bonds.

The Authority staff has also determined that it will be beneficial to expand the permitted uses of amounts advanced under the Revolving Credit Agreement and other bank facilities which may be entered into in the future and to make such uses more consistent with the permitted uses of the CP and General Revenue Notes. The Authority's Nineteenth Supplemental Electric System General Revenue Bond Resolution adopted on December 12, 2012 (the "Nineteenth Supplemental Resolution") specifies the permitted uses of amounts advanced under bank facilities that may be entered into under the Nineteenth Supplemental Resolution (including the Revolving Credit Agreement). The Trustees are requested to adopt an Amended and Restated Nineteenth Supplemental Electric System General Revenue Bond Resolution (the "Amended Nineteenth Supplemental Resolution") which will add refunding bonds or notes of the Authority as a permitted use of such bank facilities, in addition to the uses currently permitted, and, consistent with the resolutions governing the CP and General Revenue Notes, expressly permit such other uses as the Trustees may from time to time hereafter authorize. The Amended Nineteenth Supplemental Resolution will also make other miscellaneous changes to the existing Nineteenth Supplemental Resolution, including reflecting the amendment to the General Resolution proposed to be made pursuant to the Authority's Twenty-Second Supplemental Electric System General Revenue Bond Resolution adopted August 6, 2014.

### **Recommendation**

Based upon the foregoing, I recommend that the Finance and Audit Committee of the Board of Trustees adopt the attached resolutions.

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

**RESOLUTION RECOMMENDING APPROVAL OF THE SELECTION OF CERTAIN BANKS AND ADDITIONAL USES OF PROCEEDS OF CERTAIN AUTHORITY NOTES AND ADOPTION OF THE AMENDED AND RESTATED NINETEENTH SUPPLEMENTAL RESOLUTION**

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**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 has received proposals from a number of 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 and, based on such proposals, the staff selection committee has recommended that the Authority accept proposals (i) from Bank of Nova Scotia to provide a letter of credit to support \$75 million principal amount of Series GR-3 General Revenue Notes, (ii) from T.D. Bank, N.A. to extend the term of its existing letter of credit securing our Series GR-1 General Revenue Notes for one year, (iii) from Royal Bank of Canada, the issuer of the letter of credit securing our Series CP-1 Commercial Paper Notes, to continue such letter of credit at a lower letter of credit fee and (iv) from Toronto Dominion (Texas) LLC, as Administrative Agent and various other banks to extend for one year the existing revolving credit agreement the (“Revolving Credit Agreement”) among the Authority, Toronto Dominion (Texas) LLC, as Administrative Agent and various other banks named therein (such proposals being referred to hereinafter as the “Selected Proposals” and the banks making such proposals are referred to hereinafter as the “Selected Banks” );**

**WHEREAS, by resolution adopted by the Trustees at the December 16, 2015 meeting (the “December 16 Authorizing Resolution”), various officers of the Authority have been authorized to entering into new or amended agreements with the banks making the proposals selected pursuant to the Bank Facilities RFP, subject to the approval of such banks by the Trustees; and**

**WHEREAS, on December 13, 2012, the Authority adopted the Nineteenth Supplemental Electric System General Revenue Bond Resolution (the “Nineteenth Supplemental Resolution”) which authorized Electric System General Revenue Notes in an amount not to exceed \$500,000,000 outstanding at any one time; and**

**WHEREAS, the Authority wishes to make certain amendments to the Nineteenth Supplemental Resolution, including amending the permitted uses of proceeds of Electric System General Revenue Notes issued thereunder and in order to achieve such purpose there has been prepared and submitted to the Trustees a form of an Amended and Restated Nineteenth Supplemental Electric System General Revenue Bond Resolution (the “Amended Nineteenth Supplemental Resolution”); and**

**WHEREAS, the Authority’s Twenty-Third Supplemental Resolution, adopted August 6, 2014 (the “Twenty-Third Supplemental Resolution”) pursuant to the General Resolution, authorizes the Authority to issue General Revenue Notes (as defined in the Twenty-Third Supplemental Resolution) for certain purposes specified therein and further allows the Trustees to add to the permitted uses of the proceeds of such notes by subsequently enacted resolution; and**

**WHEREAS, and the Authority's Fourth Supplemental Subordinate Resolution, adopted August 6, 2014 (the "Fourth Supplemental Subordinate Resolution") pursuant to the Authority's Electric System General Subordinated Revenue Bond Resolution adopted May 20, 1998, authorizes the Authority to issue Commercial Paper Notes (as defined in the Fourth Supplemental Subordinate Resolution) for certain purposes specified therein and further allows the Trustees to add to the permitted uses of the proceeds of such notes by resolution; and**

**WHEREAS, the Authority has determined that authorizing the use of proceeds of Commercial Paper Notes and General Revenue Notes (collectively, the "CP and General Revenue Notes") for the purpose of refunding outstanding bonds of the Authority would be advantageous;**

**NOW, THEREFORE, BE IT RESOLVED THAT THE FINANCE AND AUDIT COMMITTEE RECOMMENDS THAT THE BOARD OF TRUSTEES ADOPT RESOLUTIONS SUBSTANTIALLY AS FOLLOWS:**

**The Trustees hereby approve the Selected Banks and the Chief Executive Officer, Chief Financial Officer, Managing Director of Finance, General Counsel and Secretary and Controller (the "Authorized Officers") are each hereby authorized to proceed with the Selected Proposals in accordance with the December 16 Authorizing Resolution.**

**The Amended Nineteenth Supplemental Resolution, in the form presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The Authorized Officers are each hereby authorized to deliver such Amended Nineteenth Supplemental Resolution to The Bank of New York Mellon, as the Trustee for the Bonds, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by the Authorized Officers, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.**

**Pursuant to Section 2.02 of the Fourth Supplemental Subordinate Resolution and Section 2.02 of the Twentieth-Third Supplemental Resolution, the Trustees hereby specify and determine that refunding or redeeming outstanding bonds and notes of the Authority shall be a permitted use of the proceeds of CP and General Revenue Notes, in addition to the purposes presently authorized for such CP and General Revenue Notes in accordance with the Fourth Supplemental Subordinate Resolution and the Twenty-Third Supplemental Resolution.**

**Each Authorized Officer is hereby authorized and directed 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 each Authorized Officer shall be an Authorized Representative (as defined in the General Resolution) in connection with such matters.**

**This resolution shall take effect immediately.**

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*Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Prompt Payment Policy, Investment Guidelines, 2015 Investment Report, and Interest Rate Exchange Agreement Guidelines which would be presented by Mr. Falcone.*

*Mr. Falcone presented the following item:*

### **Requested Action**

The Finance and Audit Committee is requested to adopt a resolution recommending that the full Board approve (i) modifications to the Investment Guidelines, the Interest Rate Exchange Agreement Guidelines and the Prompt Payment Policy (the “Policy”) of the Long Island Power Authority (the “Authority”), and (ii) the Annual Investment Report for 2015, each as further described below.

### **Investment Guidelines**

The Board is required by Section 2925(6) of the Public Authorities Law to annually review and approve investment guidelines that detail the Authority’s operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Authority. The Authority’s Investment Guidelines were last reviewed and approved on March 26, 2015. The proposed revisions to the Guidelines seek to incorporate appropriate available investments, align the policies with revised contractual and regulatory requirement, while also making the guidelines easier to use.

Based on staff’s review, which was performed in consultation with the Authority’s investment advisor – JP Morgan Asset Management – the proposed Investment Guidelines incorporate the following material modifications:

- (i) in section 2.1, the investment objectives for the Nuclear Decommissioning Trust Fund (“NDTF”) and OPEB Account have been updated to include adequate safeguarding of investment principal;
- (ii) in section 2.2.2, conditions for permitted repurchase agreements have been brought into closer alignment with Office of State Comptroller’s (“OSC”) investment guideline requirements;
- (iii) in sections 2.2.3 and 2.2.4, conditions for permitted commercial paper investments and corporate notes, master notes, asset-backed securities investments, respectively, have been expanded to allow investments in non-corporation as well as non-US issuers, while maintaining the creditworthiness requirements applicable previously;
- (iv) in section 2.2.5, Certificates of Deposit (CDs) are now permitted from any issuing bank that is otherwise qualified under the guidelines, not just those that are members of the Federal Reserve System;
- (v) section 2.2.9 has been removed to align the guidelines with amendments to financing documents entered by the Authority and its lenders;

- (vi) in section 2.3, the term describing the intended security has been updated to “floating rate notes,” from “variable rate notes,” and the frequency of permitted rate resets has been reduced to at least one month to align with current investment practices;
- (vii) in section 2.4, the maximum percentage of the portfolio in money market mutual funds has been increased from 75% to 100% and the maximum percentage of certificates of deposit has been increased from 40% to 80%. Furthermore, the single-issuer limit has been clarified to apply to underlying securities owned by a money market mutual fund and not to such fund itself;
- (viii) in section 2.5, the maximum maturity requirements have been clarified and simplified to be no more than three years for any security except U.S. government obligations and guaranteed investment contracts, with a weighted average maturity of one year across the whole portfolio. In addition, the maximum maturity requirements for specific types of securities have been consolidated in this section for easy reference. Furthermore, the forthcoming regulatory changes to operation of money market mutual funds have been incorporated into the periods used for purposes of calculating maturity;
- (ix) in section 2.7, the guidelines have been changed to require the Investment Manager to alert the Chief Financial Officer within a reasonable period of learning that a portfolio investment has been downgraded below the level allowed by these investment guidelines; and
- (x) in section 3.3, express references to OSC’s investment guideline requirements have been inserted.

### **Guidelines for Use of Interest Rate Exchange Agreements**

The Trustees last adopted Guidelines for the Use of Interest Exchange Agreements (“Swap Guidelines”) in March 26, 2015. The Trustees are required to review these Swap Guidelines no less frequently than bi-annually. Based on staff’s review, which was performed in consultation with the Authority’s financial advisors -- Public Financial Management and Mohanty Gargiulo LLC -- the proposed Swap Guidelines incorporate the following material modifications:

- (i) in section 3.01(a), inserted item 5 under the ERMC administrative responsibilities to include the following responsibility.
  - a. Certify reassignment and amendment of existing interest rate swap agreement upon refunding of bonds
- (ii) in section 4.05, added additional considerations on how to measure swap termination costs besides the marked to market values.

The Authority must comply with OSC guidelines for all debt issuances, including the use of interest rate exchange agreements, which in addition must be submitted to OSC for approval prior to execution

### **Prompt Payment Policy**

Section 2880 of the Public Authorities Law requires that the Authority adopt a policy for making payment promptly on amounts properly due by the Authority under its contracts. This policy generally applies to payments due by the Authority to a person or business in

the private sector under a contract it has entered into with the Authority on or after May 1, 1998. Except as otherwise provided by law or regulation or under certain circumstances specified in the Policy, the payment due date of an amount properly due by the Authority under a contract is thirty calendar days, excluding public holidays, after receipt of an invoice for such amount due; except that if such thirtieth calendar day falls on a Saturday or Sunday, the payment due date shall be the following business day. The current Policy has been in place since 1990. The material updates to the Policy are to clarify the definition of public holidays for consistency with State statutes and to contemplate electronic payments.

### **Annual Investment Report for 2015**

Section 2925 of the Public Authorities Law requires that the Authority annually review and approve an investment report. The Authority's investments are managed by an investment manager and the investments are primarily short term, highly liquid investments. All investments of Authority funds are governed by the Authority's Investment Guidelines described above. The Authority's investments for 2015 performed consistent with Staff's expectations given the nature of the investments.

### **Recommendation**

Based upon the foregoing, I recommend the approval of the above requested action by

adoption of resolutions in the forms attached hereto as Exhibits A, B, C and D

*A motion was duly made and seconded, and the Trustees unanimously adopted the*

*following resolutions:*

### **RECOMMENDATION OF APPROVAL OF MODIFICATIONS TO THE LONG ISLAND POWER AUTHORITY INVESTMENT GUIDELINES**

RESOLVED, that the Finance and Audit Committee of the LIPA Board of Trustees ("Committee") hereby recommends that the Board of Trustees approve and adopt the Investment Guidelines (amended as of March 26, 2015 and as further amended as of May 18, 2016) in the form presented at this meeting to be effective immediately.

### **RECOMMENDATION OF APPROVAL OF MODIFICATIONS TO THE LONG ISLAND POWER AUTHORITY GUIDELINES FOR THE USE OF INTEREST RATE EXCHANGE AGREEMENTS**

RESOLVED, that the Finance and Audit Committee of the LIPA Board of Trustees ("Committee") hereby recommends that the Board of Trustees approve and adopt the Guidelines for the Use of Interest Rate Exchange Agreements (amended as of March 26, 2015 and as further amended as of May 18, 2016) in the form presented at this meeting to be effective immediately.

**RECOMMENDATION OF APPROVAL OF MODIFICATIONS TO THE LONG ISLAND POWER AUTHORITY PROMPT PAYMENT POLICY**

**RESOLVED**, that the Finance and Audit Committee of the LIPA Board of Trustees (“Committee”) hereby recommends that the Board of Trustees approve and adopt the Prompt Payment Policy (amended as of May 18, 2016) in the form presented at this meeting to be effective immediately.

**RECOMMENDATION OF APPROVAL OF THE LONG ISLAND POWER AUTHORITY ANNUAL INVESTMENT REPORT**

**RESOLVED**, that the Finance and Audit Committee of the LIPA Board of Trustees (“Committee”) hereby recommends that the Board of Trustees approve and adopt the Annual Investment Report for the period ended December 31, 2015 in the form presented at this meeting to be effective immediately.

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*Chair Cohen stated that the next item on the agenda is consideration of authorization to Designate Personnel to Make Withdrawals from Long Island Power Authority Bank Accounts which would be presented by Mr. Falcone.*

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

**Requested Action**

The Finance and Audit Committee (“Committee”) of the Board of Trustees (“Board”) is being requested to approve a resolution recommending that the Board designate the officers and employees of the Long Island Power Authority (“LIPA” or the “Authority”) who would be authorized to (i) deposit funds of the Authority in banks satisfying certain specified credit standards and (ii) withdraw funds from such accounts. The Trustees are also being asked to designate the officers or employees of PSEG Long Island LLC and its wholly-owned subsidiary, Long Island Electric Utility Servco LLC (together, the “Service Provider”), who would be authorized to withdraw funds from one or more LIPA accounts established as “Operating Accounts” pursuant to the OSA (as defined below) from which the Service Provider may draw funds from time to time to pay for actual Pass-Through Expenditures (as defined in the OSA).

The Committee has been furnished with the “Designation of Authorized Persons to Sign Instruments for Payments Made from Authority Bank Accounts” (the “Bank Designation”, attached as Exhibit A hereto) which sets forth such authorization.

**Background**

The Trustees last adopted resolutions designating the banks to act as depositories for Authority funds and authorizing the officers, employees and any agents eligible to make withdrawals from those accounts in June 2014. Staff believes it is prudent to periodically revisit and update the previous resolutions.

Staff recommends that the Board require that any bank acting as a depository for Authority funds have long-term deposit ratings as follows: A- or better by Standard & Poor's Corporation, A3 or better by Moody's Investor Service, Inc. or A- or better by Fitch, Inc.

With respect to the persons authorized to withdraw funds from Authority accounts, Staff recommends that the following officers and employees of the Authority be so designated: for instruments or orders in a face amount in excess of \$25,000.00, two signatures from among the Chief Executive Officer, the Chief Financial Officer, the Controller and the Treasurer (each an "Authorized Representative"), and for instruments or orders in the face amount of \$25,000.00 or less, one signature from any Authorized Representative.

Additionally, the Amended & Restated Operations Services Agreement, dated as of December 31, 2013 ("OSA"), between Long Island Lighting Company d/b/a/ LIPA and the Service Provider provides that LIPA will establish one or more operating accounts from which the Service Provider may draw funds from time to time to pay for actual Pass-Through Expenditures (as defined in the OSA) incurred by the Service Provider. In order to allow the Service Provider to efficiently utilize the Operating Accounts, Staff recommends that the Board authorize the withdrawals from the Operating Accounts by the Service Provider's Treasurer, any assistant Treasurer or their respective authorized designees.

Staff believes the procedures and standards specified in the attached resolution are prudent and consistent with industry standards.

### **Recommendation**

Based upon the foregoing, I recommend the adoption of Exhibit A hereto.

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

### **RECOMMENDATION TO APPROVE THE DESIGNATION OF AUTHORIZED PERSONS TO SIGN INSTRUMENTS FOR PAYMENTS MADE FROM AUTHORITY BANK ACCOUNTS**

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WHEREAS, the Board of Trustees ("Board") of the Long Island Power Authority ("Authority") has previously adopted resolutions designating certain banks as depositories for funds of the Authority; and

WHEREAS, the Authority's Board has previously adopted a resolution providing that any bank acting as a depository for Authority funds have minimum credit ratings; and

**WHEREAS, the Authority's Board has previously adopted a resolution providing that certain officers, employees and agents of the Authority be authorized to deposit any of the funds of the Authority in a designated bank either at its head office or at any of its branches; and**

**WHEREAS, the Authority's Board has previously adopted a resolution providing that any funds of the Authority deposited in a designated bank be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, wire transfers or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority by two signatures from among certain enumerated persons, for instruments or orders in a face amount in excess of \$25,000.00, and by one signature from among the persons listed in said resolution for instruments or orders in the face amount of \$25,000.00 or less; and**

**WHEREAS, the Amended & Restated Operations Services Agreement, dated as of December 31, 2013 ("OSA"), between Long Island Lighting Company d/b/a/ LIPA ("LIPA") and PSEG Long Island LLC (the "Service Provider") provides that LIPA will establish one or more operating accounts from which the Service Provider shall draw funds from time to time to pay for actual Pass-Through Expenditures (as defined in the OSA) incurred by the Service Provider:**

**NOW, THEREFORE, BE IT RESOLVED, that Finance and Audit Committee of the Board recommends that the Board adopt a resolution substantially similar to the following:**

**RESOLVED, that the Authorized Representatives (as defined below) of the Authority be and hereby are, and each of them hereby is, authorized to deposit any of the funds of the Authority in any commercial bank or financial institution whose long-term deposits are rated A- or better by Standard & Poor's Corporation, A3 or better by Moody's Investor Service, Inc. or A- or better by Fitch, Inc. (each such institution referred to herein as the "Bank"), either at its head office or at any of its branches; and be it further**

**RESOLVED, that until further order of the Board, any funds of the Authority deposited in the Bank be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, wire transfers or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority by two signatures from among the Chief Executive Officer, the Chief Financial Officer, the Controller and the Treasurer (each an "Authorized Representative") for instruments or orders in a face amount in excess of \$25,000.00, and by one signature from an Authorized Representative for instruments or orders in the face amount of \$25,000.00 or less; and be it further**

**RESOLVED, that the Bank is hereby authorized to pay any such instrument or make any such charge and also to receive the same instruments of issue or the disposition of the proceeds, whether drawn against an account in the name of the Authority or in the name of any officer or agent of the Authority as such, and, at the option of the Bank, even if the account shall not be in credit to the full amount of such instrument or charge; and be it further**



**RESOLVED**, that each of the Chief Executive Officer, Chief Financial Officer and General Counsel of the Authority be, and each hereby is, authorized to certify to the Bank the names of the present officers of the Authority, and any other persons authorized by the Board to sign for it and the offices held by them together with specimens of their signatures, and in case of any change of any holder of any such office or holders of any such offices, the fact of such change and the names of any new officers and the offices held by them together with specimens of their signatures, and the Bank be, and hereby is, authorized to honor any instrument signed by any new officer or officers, in respect of whom it has received any such certificate or certificates with the same force and effect as if said officer or officers were named in the foregoing resolutions in the place of any person or persons with the same title or titles; and be it further

**RESOLVED**, that, until the further order of the Board, funds of the Authority deposited in an Operating Account (as defined in the OSA) in the Bank be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, wire transfers, undertakings or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority by, (i) the Authorized Representatives of the Authority named in the foregoing resolutions consistent with the provisions of said resolutions or (ii) the following officers of the Service Provider: the Treasurer and any Assistant Treasurer or their respective authorized designees; and be it further

**RESOLVED**, that the Bank be promptly notified in writing by any Authorized Representative of the Authority of any change in these resolutions, such notice to be given to each office of the Bank in which any account of the Authority may be maintained and that until it has actually received such notice in writing it is authorized to act in pursuance of these resolutions, and that until it actually so received such notice it shall be indemnified and saved harmless from any loss suffered or liability incurred by it in continuing to act in pursuance of these resolutions, even though these resolutions may have been changed.

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*Chair Cohen stated that the next item on the agenda is consideration of recommendation to approve Pension & OPEBs Settlement Agreement with National Grid which would be presented by Mr. Falcone.*

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

### **Requested Action**

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) is being requested to adopt a resolution recommending that the Board authorize the Chief Executive Officer or his designee to execute a Stipulation and Agreement (“Settlement Agreement”) with National Grid Generation LLC (“NGG” or “National Grid”) related to the parties’ pension and other post-retirement benefit (“P&OPEB”) obligations under the Amended & Restated Power Supply Agreement, dated as of October

10, 2012, as amended (the “A&R PSA”) between National Grid and the Long Island Lighting Company d/b/a LIPA (“LIPA”), as more fully set forth below.

### **Background**

Schedule E (“Schedule E”) to the Agreement and Plan of Merger dated as of June 26, 1997 (the “Merger Agreement”) between LIPA and KeySpan Corp. (now National Grid) was intended to set forth the respective rights and obligations of KeySpan Corp. and LIPA with respect to employee benefit plan funding obligations for employees serving LIPA through the operating agreements between the parties (the “LIPA Serving Employees”). Appendix A of the PSA (and the A&R PSA) sets forth how such amounts applicable to the PSA would be determined and collected. Under Appendix A, NGG is entitled to collect its annual P&OPEB expenses through the Monthly Capacity Charge.

Upon the effective date of the original PSA on May 28, 1998 and as amended in the 2004 FERC proceeding that reset the entire cost of service, a fixed amount of P&OPEB expenses was established as a component of the Capacity Charge. The difference between the fixed amount and NGG’s actual allocable expenses was covered by the 2006 Side Letter described below. In the 2009 FERC proceeding to “reset” the cost base of the Capacity Charge, LIPA and NGG agreed to permit NGG to reset each of the P&OPEB charges each year to more closely, but not exactly, track NGG’s allocable P&OPEB expenses.<sup>1</sup> The Capacity Charge is determined on a calendar year basis (certain other costs are updated automatically according to a contractually specified index). NGG adjusts its P&OPEB expenses on a fiscal year basis that runs from April 1 through March 30. LIPA and NGG agreed that the P&OPEB cost component would be changed each calendar year through a single issue filing at FERC to reflect the actual monthly expense for the first three months of the calendar year (established the previous March) and nine months based on NGG’s budgeted expense for that fiscal year as determined by NGG’s actuary. The annual filing was to be made by June 1 of each calendar year, i.e., half way through the calendar year, with a retroactive adjustment in billings by NGG to LIPA going back to January 1 of that calendar year.

Separately, LIPA and National Grid entered into a Letter Agreement dated January 1, 2006 relating to Schedule E (the “2006 Letter Agreement”). The 2006 Letter Agreement deals, in part, with employee benefit contributions for LIPA Serving Employees that National Grid has funded to P&OPEB plan trusts relative to the funding received from LIPA for those costs. In the 2006 Letter Agreement, the parties agreed that, to the extent National Grid made contributions to employee benefit trusts in excess of funds received from LIPA, LIPA would pay National Grid a carrying charge, effectively an interest rate, on those amounts, calculated as provided in the 2006 Letter Agreement. Conversely, to the extent that LIPA paid to National Grid funds that were not deposited in the associated benefit trusts, National Grid would credit a carrying charge to LIPA.

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<sup>1</sup> P&OPEB expenses are a current cost under the A&R PSA that are an estimate of the costs NGG will incur in the future for P&OPEB expenses when individual employees retire. NGG charges LIPA these costs now and funds P&OPEB plans in order to be able to fulfill its responsibilities in the future.

### **A&R PSA P&OPEB Resets for 2013, 2014 and 2015 Contract Years**

The mechanism for adjusting the P&OPEB expense in the annual Capacity Charge under the PSA, described above, was carried forward in the A&R PSA that became effective on May 28, 2013. In May 2014, NGG filed a change in the P&OPEB expenses for 2013. NGG explained that it was delayed in making the filing due to the change in its company-wide business software. LIPA protested the filing because it believed that NGG had not adequately supported its calculations and the FERC set the matter for settlement discussions. LIPA took this opportunity to resolve not only the filing at hand but to consolidate the reconciliation of LIPA's P&OPEB payments to NGG with NGG's actual expenses, to terminate the separate calculations under the 2006 Side Letter, and to ensure amounts paid by LIPA to NGG are deposited to the associated NGG P&OPEB trusts. LIPA's auditors reviewed National Grid's records of actual expenses and funding of its P&OPEBs related to the PSA. This process extended over two years; National Grid withheld its annual adjustment filings for the 2014 and 2015 Contract Years during this review process and settlement discussions held at FERC.

The proposed Settlement Agreement provides a comprehensive resolution of the P&OPEB rate resets required under the A&R PSA for the 2013, 2014 and 2015 Contract Years (the "Rate Reset Years"). The Settlement Agreement also sets forth changes to the method for determining and assessing charges for all P&OPEB expenses to be included in the Capacity Charge assessed by NGG to LIPA under the A&R PSA beginning with the 2016 Contract Year and continuing for the remaining term of the A&R PSA.

Under the terms of the proposed Settlement Agreement, NGG will refund \$16,411,017 to LIPA for the Rate Reset Years no later than thirty (30) days after the effective date of the Settlement Agreement.<sup>2</sup> This refund will result in a reduction to delivery charges for LIPA customers as a component of the Delivery Service Adjustment beginning on January 1, 2017. Furthermore, as a result of the Settlement Agreement, no additional carrying charges will accrue under the 2006 Side Letter after March 31, 2016. Also within thirty (30) days of the effective date of the settlement agreement, NGG will fund its Long Island OPEB plan trust in an amount equal to \$30,199,568 (assuming such funding can be made on a tax effective basis).<sup>3</sup> This amount reflects the net difference between the amount NGG received from LIPA for A&R PSA P&OPEB costs and that deposited to the associated P&OPEB trusts by NGG as of December 31, 2015, as adjusted by the refund due to LIPA for the Rate Reset Years.

The proposed Settlement Agreement also provides that the A&R PSA will be amended prospectively effective January 1, 2016 for the 2016 Contract Year through the remaining term of the A&R PSA to provide for (i) an annual reconciliation of NGG's P&OPEB expenses included in the Capacity Charge and NGG's actual P&OPEB expenses, and (ii) the provision of an annual schedule for each Contract Year by NGG to LIPA of actual P&OPEB expenses capitalized as part of capital projects that are placed in service to serve LIPA under the A&R PSA. The settlement further provides a detailed description of how

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<sup>2</sup> The effective date of the Settlement Agreement will be the first day of the first month after the later of the following: (i) LIPA receives the approval of the New York State Comptroller for the Settlement Agreement, or (ii) the Federal Energy Regulatory Commission shall have issued a Final Order approving all of the terms and provisions of the Settlement Agreement without modification or condition

<sup>3</sup> LIPA believes there is virtually no risk that funding cannot be made on a tax effective basis based on the current funding of the plans.

NGG will determine, track and report its annual P&OPEB expenses to LIPA through the creation of Actuarial Subaccounts which will track and report separately the effect of LIPA's payments of P&OPEB expenses on the assets of the Long Island P&OPEB plans. This detailed reporting will improve LIPA's transparency into National Grid's funding process and allow LIPA to better track its payments to NGG's funding of the Long Island plans. The Settlement Agreement provides that LIPA would pay NGG an incremental cost (not expected to exceed \$35,000/year) for the incremental cost of this detailed reporting.

Under the proposed Settlement Agreement, NGG will make an annual P&OPEB expense reconciliation filing with Federal Energy Regulatory Commission following the Contract Year to which it applies. The 2015 Pension expense rate reset amount of \$17,505,483 and 2015 OPEB expense rate reset amount of \$12,154,171 will remain in effect for the 2016 Contract Year and will serve as the basis for the first reconciliation filing which will be made in 2017 to reconcile the 2015 P&OPEB rate reset amounts to the actual 2016 P&OPEB O&M expenses. The first reconciliation filing will also reset the level of P&OPEB expenses to be recovered through the Capacity Charge for 2017 (effective January 1, 2017) to an amount equal to the actual 2016 P&OPEB expenses. For each future year (April 1 – March 31), the assets in the Actuarial Subaccounts will be adjusted by the following: (i) actual funding contributions paid into the Long Island P&OPEB plans for those active and inactive participants in those plans, (ii) actual benefit payments allocated based on expected pension payments, (iii) actual OPEB claims allocated based on expected claims paid, (iv) allocated share of administrative expenses by asset value, and (v) investment income based on the total trust return.

Of note, LIPA retained the services of Ernst & Young LLP to audit the NGG Rate Reset and carrying charge amounts due from or owing to LIPA. LIPA also retained the services of Cheiron Inc., an actuarial consulting firm, to advise on the terms of the amendments to the A&R PSA to begin prospectively with the 2016 Calendar Year. The settlement agreement also includes certain ministerial clarifications to the A&R PSA with regard to various billing disputes in interpreting the A&R PSA since it was executed in 2012.

### **Recommendation**

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

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

### **RECOMMENDATION TO AUTHORIZE NEGOTIATION AND EXECUTION OF A STIPULATION AND AGREEMENT WITH NATIONAL GRID RELATED TO PENSION AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS UNDER THE AMENDED & RESTATED POWER SUPPLY AGREEMENT**

WHEREAS, Schedule E to the Agreement and Plan of Merger dated as of June 26, 1997 between the Long Island Power Authority (the "Authority" or "LIPA") and KeySpan Corp. (now National Grid) was intended to set forth the respective rights and obligations of KeySpan Corp. and LIPA with respect to employee benefit plan funding obligations for employees serving LIPA through the operating agreements between the parties; and

**WHEREAS, under Appendix A of the PSA (and the A&R PSA), National Grid was entitled to collect its annual pension and other post-retirement benefit (“P&OPEB”) expenses through the Monthly Capacity Charge; and**

**WHEREAS, upon the effective date of the PSA on May 28, 1998 and as amended in the 2004 FERC proceeding to reset the entire cost of service, a fixed amount of P&OPEB expenses was established as a component of the Capacity Charge; and**

**WHEREAS, in the 2009 FERC proceeding to “reset” the cost base of the Capacity Charge, LIPA and National Grid agreed to permit National Grid to reset each of the P&OPEB charges each year to more closely, but not exactly, track National Grid’s allocable P&OPEB expenses; and**

**WHEREAS, in 2014, LIPA protested National Grid’s FERC filing pursuant to the A&R PSA for a change in the P&OPEB expenses for 2013 because LIPA believed National Grid had not adequately supported its calculations; and**

**WHEREAS, FERC set the matter for settlement discussions and the parties have been negotiating a possible settlement of the matter; and**

**WHEREAS, National Grid and LIPA have negotiated the proposed settlement agreement (as more fully described in the accompanying memorandum) which provides a comprehensive resolution of the P&OPEB rate resets required under the A&R PSA for the 2013, 2014 and 2015 Contract Years, sets forth changes to the method for determining and assessing charges for all P&OPEB expenses to be included in the Capacity Charge assessed by National Grid to LIPA under the A&R PSA beginning with the 2016 Contract Year and continuing for the remaining term of the A&R PSA, and contemplates certain additional ministerial amendments to the A&R PSA:**

**NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee recommends that the Board of Trustees authorize the Chief Executive Officer (“CEO”), or his designee, to negotiate and execute a definitive stipulation and agreement with National Grid related to P&OPEB obligations, as described in the accompanying memorandum, and other related agreements and arrangements, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the CEO, to carry out the aforesaid agreements.**

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*Chair Cohen stated that the next item on the agenda is Power and Fuel Supply Management and Commodity Hedging Update by PSEG Energy Resources & Trade which would be presented by Mr. Chu, Mr. Oster and Mr. Pommier.*

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

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*Chair Cohen stated that the next item on the agenda is presentation by representatives of Barclays Capital and PFM Regarding the Authority's Credit Ratings which would be presented by Mr. Cantu and Mr. Mace.*

*Mr. Cantu and Mr. Mace gave a presentation regarding the Authority's Credit Ratings and then took questions from the Trustees.*

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*Chair Cohen then entertained a motion to adjourn the meeting, which was duly seconded and carried at approximately 9:45 a.m.*