

## Audit Committee Meeting – March 4, 2015

### **I. Call to Order**

Mr. Bernard Rosen, Audit Committee Chair, was delayed; Mr. Mark Kaplan acted as the Chair and called the meeting to order at 9:40 a.m.

### **II. Review of the Draft Minutes of the Previous Audit Committee Meeting**

The first agenda item was the approval of the draft minutes of the January 21, 2015 and January 28, 2015 Audit Committee meetings. Mr. Kaplan called for a motion to approve the minutes; Mr. Michael Spitzer made a motion; the motion to approve the minutes carried unanimously.

### **III. Review of the Financial Statements and Management Letters (where applicable) for the following entities:**

#### **New York City Water and Sewer System**

The next agenda item was the review of the financial statements and management letter of the New York City Water and Sewer System (the System) for the fiscal year ended June 30, 2014. Mr. Robert Balducci, Comptroller for the New York City Municipal Water Finance Authority (the Authority), introduced the other representatives of the System present and Mr. Michael Malloy of Deloitte & Touche LLC, the System's independent auditor.

Mr. Thomas Paolicelli, Executive Director for the Authority, began by presenting the financial highlights for fiscal year 2014 and noted the following:

- The System increased rates in 2014 by 5.6%.
- Operating revenues included \$83 million from a legal settlement with Exxon Mobil.
- Operation and maintenance expenses increased due to personal service cost increases of \$76 million to cover the collective bargaining agreements, and \$32.7 million of operational costs associated with the new Catskill-Delaware Water Ultraviolet Disinfection Facility and the Croton Water Filtration Plant.
- On the *Combining Statement of Net Position*, the Authority issued \$2.9 billion in bonds of which \$1.3 billion were used for refunding. From those refunding bonds, the Authority had gross savings of over \$200 million. The Authority also defeased approximately \$361 million of outstanding bonds using current revenue.
- The Authority issued \$1.4 billion in commercial paper notes to pay the cost of improvements and transferred \$1.8 billion to the City for construction costs.
- The Manhattan portion of the third water tunnel was placed into service in fiscal year 2014 and, as a result, \$1.2 billion was moved from construction work-in-progress to depreciable assets.
- The primary driver of the negative net position is the payment of certain non-capital assets with bond proceeds.
- The cumulative amount of the non-capital assets, which were paid for with bond proceeds, was approximately \$1.37 billion.
- The System adopted GASB Statement 68, which resulted in a pension liability of just under \$1 million.

Mr. Steve Lawitts, First Deputy Commissioner and Chief Financial Officer for the Department of Environmental Protection (DEP) and Executive Director of the Water Board (the Board), reported the Board's new automated meter reading systems had resulted in an 80 percent reduction in estimated bills and approximately a 50 percent reduction in customer complaints/inquiries. In addition, the Board has been able to mine the automated meter reading data to roll out a number of service improvements to customers, such as leak notifications which have saved them collectively \$60 million in charges.

Mr. Lawitts also noted the following:

- The City Council and Mayor signed a two-year extension of the lien sales into legislation last month, which have been the Board's most critical enforcement tool to get seriously delinquent customers to pay. For the seven years that lien sales have been in effect, they have yielded approximately \$100 million in additional revenue each year. Notices have been sent to approximately 19,000 seriously delinquent customers who collectively owe \$220 million.
- The Board continued its OpX program, which is an aggressive, targeted large meter replacement program now in its third year. Cumulatively the OpX program has achieved operating savings and additional revenues of about \$98 million, which is an annually recurring financial benefit to the Board.
- On the capital program side, in May the Board will be putting filtered water into public distribution from the Croton Water Filtration Plant.

[Mr. Rosen arrived at 9:55 a.m. and assumed his responsibility as Chair.]

- Progress continues to be made on the signature project for the next ten years, *Water for the Future*, which will provide a permanent solution to the leak in the Delaware Aqueduct. Approximately three weeks ago, the Mayor released the preliminary ten-year capital plan, the biggest single addition being approximately \$1.2 billion to address longstanding needs for controlling the combined sewer overflows and further ensuring the cleanliness of the New York Harbor waters.
- The aggressive green infrastructure program continues, which will include the building of 9,000 bioswales to capture and detain stormwater in sections of Brooklyn, Queens and the Bronx.
- Good progress has been made on the two management letter items. With regard to the construction work-in-progress, a solution has been developed in which all prospective capital projects are being accounted for in the City's Financial Management System; the System will continue to work on reconciling the construction work in process. With regard to the customer information system and the aging of accounts receivables, in the last quarter of fiscal year 2014, a number of solutions were implemented to properly age the accounts receivables.

A question and answer session followed and the following matters were discussed:

- The third water tunnel, in Manhattan, was turned on in 2014. There are still projects taking place in Lower Manhattan and in Brooklyn and Queens.
- The DEP police force consists of approximately 188 officers whose sole purpose is to protect the water system.

With regard to the management letter, the Committee expressed concern that several items have not been remediated after such a long period of time. Mr. Balducci explained that the System still has a challenge with the reconciliation of construction work in progress (CWIP) because of the legacy systems that are involved. All issues are expected to be removed from any future management letter regarding the completion of the CWIP system. The 2011 update stating that the customer information system (CIS) was unable to be completed as planned was related to a contract with IBM in which IBM was unable to deliver as agreed. Within the in-house Office of Information Technology, there is a cyber-security group, and that the System has also undertaken a high-level security review of all of the systems through the Department of Homeland Security. The System will soon engage another security firm to assess its systems. CIS fixes were in place in the last quarter of fiscal year 2014. The first opportunity to test those system fixes will come with the fiscal year 2015 independent audit. The CIS has 836,000 customers, ranging from single-family homes to the largest apartment buildings. The Committee commented that it would like a report back in June as to the status of the two items cited in the management letter because they are so old. The System representatives confirmed that an update would be provided.

There being no further questions the Chair thanked the representatives of the Authority and the Board for their participation at today's meeting.

### **Hudson Yard Development Corporation and Hudson Yard Infrastructure Corporation**

The next agenda item was the review of the financial statements and management letter of the Hudson Yard Development Corporation (HYDC) and Hudson Yard Infrastructure Corporation (HYIC) for the fiscal year ended June 30, 2014. Mr. Alan Anders, President of HYIC and

Executive Director of the New York City Office of Management and Budget, introduced the other representatives of HYDC and HYIC present and Mr. Warren Ruppel, the representative of Marks Paneth LLP, HYDC's and HYIC's independent auditor.

Mr. Mark Spector, president of HYDC, stated that the Hudson Yards project will allow for approximately 26 million square feet of new office development; 20,000 units of housing, of which almost 5,000 units will be affordable units; two million square feet of retail space; and three million square feet of hotel space.

Also noted:

- The intent of the Hudson Yards project was to extend the central business district of the downtown of New York to the West.
- Part of the plan was to have the Number 7 subway line in operation at the end of the Bloomberg Administration. The last part of the project is the subway station (responsibility of the MTA), which the opening date should take place in the middle of 2015.
- The City is responsible for only interest payments on the bonds to the extent that revenues are not sufficient to cover the interest payments.
- The Number 7 line will go in service this year; and the second entrance to the station under construction will be completed in 2018 or 2019; the Park is nearly ready to open. The entire build-out could take ten years.

There being no further questions the Chair thanked the representatives of HYDC and HYIC for their participation at today's meeting.

**New York City Transitional Finance Authority**

The next agenda item was the review of the financial statements and management letter of the New York City Transitional Finance Authority (TFA) for the fiscal year ended June 30, 2014. Mr. Anders introduced the other representatives of TFA present and Glenn Friedrich of Deloitte & Touche LLC, TFA's independent auditor.

Mr. Jay Olsen, Treasurer at TFA, began his presentation by stating that in fiscal year 2014 TFA issued \$2.8 billion in money bonds. TFA distributed \$3.5 billion in capital bond proceeds, and did not issue any Building Aid Revenue Bonds.

Mr. Olsen explained that personal income taxes are collected by the State Department of Taxation and remitted on a daily basis to TFA's trustee first for the benefit of bondholders. After paying the debt service needs, the remainder gets paid to the City. TFA was created to give the City debt-incurring power over and above the debt limit.

There being no further questions, the Chair thanked the representatives of TFA for their participation at today's meeting.

**Sales Tax Asset Receivable Corporation**

The next agenda item was the review of the financial statements and management letter of the Sales Tax Asset Receivable Corporation (STAR) for the fiscal year ended June 30, 2014. Mr. Anders introduced the other representatives of STAR present, and Mr. Warren Ruppel, the representative of Marks Paneth LLP, STAR's independent auditor.

Mr. Anders reported that STAR provides for the payment of principal and interest and redemption premium, if any, on all outstanding bonds of the Municipal Assistance Corporation for the City.

Last September STAR had a \$2 billion refinancing of what was left of the STAR bonds, which resulted in \$656 million in savings for the City.

There being no further questions the Chair thanked the representatives of STAR for their participation at today's meeting.

### **TSASC, Inc.**

The next agenda item was the review of the financial statements and management letter of TSASC, Inc. (TSASC) for the fiscal year ended June 30, 2014. Mr. Anders introduced the other representatives of TSASC present, and noted that Marks Paneth LLP, was TSASC's independent auditor.

Mr. Anders explained that no bonds have been issued by TSASC since 2006. Revenues received in fiscal year 2014 were greater than expected because the first litigation was resolved successfully. Unless there is a global settlement between New York State and the tobacco companies, TSASC will have to reach a settlement each year.

Mr. Anders explained that the unpledged revenue represents the City's portion of TSASC's revenue. A little under 40 percent of revenue is for the benefit of the bondholders, and a little over 60 percent goes to the City. Some of TSASC's bonds will remain outstanding until maturity in 2042. The amortization depends on the revenue and the hope is that the bonds will be retired early.



There being no further questions the Chair thanked the representatives of TSASC for their participation at today's meeting.

### **Fiscal Year 2005 Securitization Corporation**

The next agenda item was the review of the financial statements and management letter of the Fiscal Year 2005 Securitization Corporation (FSC) for the fiscal year ended June 30, 2014. Mr. Anders introduced the other representatives of FSC present, and Mr. Brendon Kennedy, the representative of SaxBST, FSC's independent auditor.

Mr. Anders explained that FSC was created to restructure a City refunding escrow. Interest rates had gone down, the value of the escrow increased and for tax law reasons the City could not refinance the bonds directly. The value was realized by creating a new entity and acquiring the securities held in escrow. The bonds go out to 2020.

There being no further questions the Chair thanked the representatives of FSC for their participation at today's meeting.

### **NYCTL Trusts**

The next agenda item was the review of the financial statements and management letter of the NYCTL Trusts (the Trusts) for the fiscal year ended June 30, 2014. Mr. Anders introduced the other representatives of the Trusts present, and Mr. David Spara, the representative of Toski & Co., P.C., the Trusts' independent auditor for the Trusts listed below:

- NYCL 1998-2 Trust
- NYCL 2011-A Trust

- NYCL 2012-A Trust
- NYCL 2013-A Trust
- NYCL 2014-A Trust

Various topics were discussed, including:

- The Trusts had \$56 million in proceeds in collected property taxes and another \$15 million for water liens. The value of the program is getting non-payers during the processing of the 90-day, 60-day and 30-day notice to stay out of lien sales.
- Once all of the bonds of a Trust are retired, the Trust is dissolved and the remaining assets are transferred to the NYCTL-1998-2 Trust.
- Mr. Spara reported that all the Trust reports contain the financial statements, a report to the Board, and a management letter. No material weaknesses were noted; no significant audit adjustments were made; and there were no consultations of other auditors.
- A little more than \$100 million that was distributed from of all of the Trusts to the City.

There being no further questions the Chair thanked the representatives of the Trusts for their participation at today's meeting.

### **NYC Technology Development Corporation**

The next agenda item was the review of the financial statements and management letter of the New York City Technology Development Corporation (TDC) for the year ended June 30, 2014. Mr. Balducci introduced the representatives of TDC, and noted that Deloitte & Touche LLP was TDC's independent auditor.

Ms. Eileen Cleary, Acting President of TDC, reported that TDC provides IT project management services and risk monitoring services for Mayoral agencies. TDC helps agency employees implement large-scale IT software projects and ensures that projects are healthy with proper budgets, resourcing, and realistic timelines. TDC has 16 employees on nine projects serving eight agencies.

A question and answer session followed and the following was discussed:

- TDC's program revenue is through its contract, and its only expenditures are administrative. TDC is a service company.
- TDC's services are usually obtained by referral from the City's Chief Technology Officer.
- TDC has an Audit Committee.
- TDC rarely hires consultants. When consultants are required, they are usually found through the client agencies.
- TDC's pay scale is slightly better than what City employees receive. The other appeal TDC has is that the work/life balance is better at TDC than in private industry and there is no travel involved.

There being no further questions the Chair thanked the representatives of TDC for their participation at today's meeting.

#### **IV. Nomination for Chair**

Ms. Jackie Thompson, Secretary, opened the floor for nominations for Chair of the Audit Committee. Mr. Kaplan nominated Mr. Rosen as Chair of the Audit Committee. By unanimous vote, Mr. Rosen was re-elected as Chair.

#### **V. Annual Report of the Audit Committee**

Mr. Spitzer made a motion to adopt the Annual Report of the Audit Committee of The City of New York, subject to the non-substantive editorial comments submitted to the Secretary. The Annual Report of the Audit Committee was adopted.

#### **VI. Bylaws**

Mr. Kaplan made a motion to adopt the Bylaws. The motion carried. Subject to the editorial comments submitted to the Secretary, the Bylaws were adopted.

#### **VII. Nomination for Secretary**

The Chair made a motion to nominate Ms. Thompson as Committee Secretary. By unanimous vote, Ms. Thompson was re-elected as Secretary.

There being no further business before the Committee, the meeting was adjourned at 11:30 a.m.