



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, FEBRUARY 22, 2017
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	Representing the Mayor –Nicole Fleming Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Umair Khan
Secretary	Jacqueline Thompson
Independent Auditors	Grant Thornton LLP – Marla Hummel, Cosmo Saginario Toski & Co., P.C. – Joseph Kehm Marks Paneth LLP – Daniel McElwee, Warren Ruppel, Sibi Thomas
Others	New York City Water and Sewer System (System) – Alan Anders, Robert Balducci, Joseph Murin, Omar Nazem, Nameca Sharma Hudson Yards Development Corporation (HYDC) and Hudson Yards Infrastructure Corporation (HYIC) – Alan Anders, Robert Balducci, Angela Cavaluzzi, Kenny Narine, Jay Olson New York City Transitional Finance Authority (TFA) – Alan Anders, Robert Balducci, Kenny Narine, Jay Olson Sales Tax Asset Receivable Corporation (STAR) – Alan Anders, Robert Balducci, Kenny Narine, Jay Olson TSASC, Inc. (TSASC) – Alan Anders, Robert Balducci, Kenny Narine, Jay Olson

Fiscal 2005 Securitization Corporation (FSC) – Alan Anders, Robert Balducci, Kenny Narine, Jay Olson

New York City Technology Development Corporation – Robert Balducci, Marge Ginsburg, Brendan Hancock

New York City Mayor’s Office of Operations – Florim Ardolli, George Davis

New York City Office of Management & Budget – Enid Ellis, John Grathwol, Xiaochao Jin, Raymond Lee

New York City Comptroller’s Office – Camille Arezzo, Carmen Chan, Leonel Ferreira, Peter Flynn, Carol Kostik, Berta Lara, Timothy Martin, Katrina Stauffer, Michael Stern

Lepercq, de Neuflyze & Co., Inc. – Thomas Gallagher

Audit Committee Meeting – February 22, 2017

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chairman, called the meeting to order at 9:30 a.m. Audit Committee Secretary Ms. Jacqueline Thompson took roll call; a quorum was present.

II. Approval of the Draft Minutes of the Audit Committee Meeting Held

January 25, 2017

The first agenda item was the approval of the draft minutes of the January 25, 2017 Audit Committee Meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Rosen called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Thompson; the Committee approved the draft minutes of the January 25, 2017 meeting.

III. Review of the Draft Audit Committee Annual Report

Chairman Rosen inquired if there were any comments on the Annual Report of the Audit Committee as presented. Subject to the non-substantive editorial comments submitted to the Committee Secretary, the Committee accepted the draft of the Annual Report of the Audit Committee.

IV. Review of the Financial Statements and Management Letters (where applicable)

for the following entities:

- New York City Water and Sewer System
- Hudson Yards Development Corporation
- Hudson Yards Infrastructure Corporation
- New York City Transitional Finance Authority
- Sales Tax Asset Receivable Corporation
- TSASC, Inc.
- Fiscal Year 2005 Securitization Corporation
- New York City Tax Lien Trusts
- New York City Technology Development Corporation

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, 2016.

Mr. Robert Balducci, Comptroller of New York City Municipal Water Finance Authority (The Authority), introduced the other representatives present and Mr. Warren Ruppel, representative of Marks Paneth LLP (Marks Paneth), the System's independent auditors.

Chairman Rosen asked for a status update on the Third Water Tunnel. Mr. Joseph Murin, Chief Financial Officer of the Department of Environmental Protection (DEP), stated that the tunnel is being prepared to be activation ready by the end of the calendar year. There will be water in the tunnel if it is necessary to put it into service should an emergency take place. The Mayor has proposed additional funding to be added to the budget to be adopted in June 2017 for completion of the entirety of the tunnel, which is projected for 2025. The third water tunnel leg that is in Manhattan is being used, but not the Brooklyn/Queens leg.

There is a robust capital plan, and the Mayor has proposed increasing it by \$3 billion, from \$17.8 to \$20.8 billion, which would enable the System to complete both the Third Water Tunnel and start construction on the Kensico-Eastview connection tunnel.

Mr. Alan Anders, Chief Executive Officer of The Authority, reported that during the audit year it issued \$2.4 billion in bonds, of which \$1.954 billion were used for refinancing. \$721 million of outstanding bonds were defeased. In addition, the Mayor announced that there would be an elimination of the rental payment that the System had typically paid the City, and a credit of \$183 given per homeowner. That was challenged, and the System lost at the trial level. The Mayor announced that there was strong dissent at the Appellate level, and the decision will be appealed. There will be a water rate increase in the spring of two percent.

A question and answer session took place after the presentation. Several matters were discussed including:

- The revised formula for the rent calculation was based upon the Mayor's determination not to request the rental payment for the remainder of his term, and assuming that the succeeding mayor would do so as well.
- There was a reduction in the amount of late payment fees related to the rollout of the automatic meter-reading system. The new system resulted in a much more accurate and timely usage reporting and billing, and customers appear to be paying on-time as a result of increased confidence in the system.
- There were no significant deficiencies or material weaknesses identified in the management letter.

There being no further questions, Chairman Rosen thanked the representatives of the System for their participation at today's meeting.

Hudson Yards Development Corporation and Hudson Yards Infrastructure Corporation

The next agenda item was the review of the financial statements and management letters of the Hudson Yards Development Corporation (HYDC) and Hudson Yards Infrastructure Corporation (HYIC) for the fiscal year ended June 30, 2016. Mr. Robert Balducci, Comptroller of HYIC, introduced the other representatives from HYDC and HYIC present, and Mr. Warren Ruppel, representative of Marks Paneth, HYDC's and HYIC's independent auditors.

Mr. Anders, President of HYIC, noted that HYDC is primarily responsible for dealing with the Metropolitan Transit Authority (MTA). HYDC also supervises the Economic Development Corporation (EDC) in constructing the public amenities, the park and the boulevard, and is involved with developers in many respects. HYIC was the bond issuer and collects revenues to pay bond holders.

Ms. Angela Cavaluzzi, President of HYDC reported that the Coach building is fully committed, and Tower D is being built. The cultural facility is also under construction, and HYDC anticipates that most of the projects on the eastern rail yards will be completed by 2019.

The development project is expected to bring in an estimated \$1.5 billion in additional revenue to the City by 2030 or 2040.

A question and answer session followed. Several matters were discussed, including:

- Information on District Improvement Bonuses and Transferable Development Rights, TDRs being sold by HYIC.
- For the Western Rail Yards, the first three blocks of the park have been opened. Phase 2 of the park will be completed with the developers as an in-kind contribution as the development moves north.

There being no further questions, Chairman Rosen 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, 2016. Mr. Robert Balducci, Comptroller of TFA, introduced the other representatives of TFA present, and Mr. Warren Ruppel, representative of Marks Paneth, TFA's independent auditors.

Mr. Jay Olson, Treasurer of TFA, explained that TFA is a core issuer financing the City Capital Program. Initially it was created to give the City additional financing capacity over and above the constitutional debt limit when the city was up against it in the late 1990s. TFA issues two types of bonds, one for general capital purposes and the other for educational purposes. In fiscal year 2016, \$4 billion of future tax secured bonds were issued, backed by the City income tax and sales tax, if needed; \$3.7 billion for new money purposes; and \$400 million for refinancing in a single refinancing undertaking that generated over \$60 million of present value savings. There was one issuance of building aid revenue bonds for \$750 million financing the educational capital program.

A question and answer session followed. Several matters were discussed, including:

- Chairman Rosen commented that the TFA, as well as the General Obligation (GO) debt, is in the calculation now for the debt limit, and it was explained that when the City computes the remaining debt-incurring power under the constitutional limit, GO bonds, plus other capital contract liabilities, plus TFA future tax-secured bonds outstanding (above \$13.5 billion).
- The federal government provides a cash subsidy for Build America Bonds and qualified school construction bonds, which have been issued by TFA and the City. The federal government thus far is continuing to pay those subsidies.
- TFA has its own Audit Committee.

There being no further questions, Chairman Rosen 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, 2016. Mr. Robert Balducci, Comptroller of STAR, introduced the other representatives of STAR present, and Mr. Warren Ruppel, representative of Marks Paneth, STAR's independent auditors.

The STAR bonds are outstanding until about 2030 and STAR is not expected to issue future bonds.

There being no questions, Chairman Rosen thanked the representatives of STAR 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, 2016. Mr. Robert Balducci, Comptroller of FSC, introduced the other representatives of FSC present, and Mr. Warren Ruppel, representative of Marks Paneth, FSC's independent auditors.

This was a one-time transaction. It has been inactive for several years and will end in 2020.

There being no questions, Chairman Rosen thanked the representatives of the FSC for their participation at today's meeting.

TSASC, Inc.

The next agenda item was the review of the financial statements and management letter of the TSASC, Inc. (TSASC) for the fiscal year ended June 30, 2016. Mr. Robert Balducci, Comptroller of TSASC, introduced the other representatives of TSASC present, and Mr. Warren Ruppel, representative of Marks Paneth, TSASC's independent auditors.

Mr. Jay Olson, Treasurer of TSASC stated that the tobacco settlement was basically in exchange for the states not continuing to sue the tobacco companies over healthcare claims. The City and TSASC are not direct parties to the settlement, but it is a beneficiary of the settlement. All of the money is paid to TSASC, but there is a split between pledged and unpledged in terms of what is payable to bondholders to discharge the debt versus the remainder paid to the City. Approximately 37 percent is paid for debt service, and the remainder goes to the City.

Last spring approximately \$66 million went for additional TSASC debt service and approximately \$110 million went to the City as additional residual revenue resulting from freeing up of disputed

escrow monies, which strengthened credit and allowed TSASC to do a refinancing that resulted in investment grade ratings on TSASC bonds. It is anticipated by feasibility analysts that the consumption of tobacco will continue to go down three percent per year.

A question and answer session followed. Several matters were discussed, including:

- TSASC does not pay income taxes, but it invests in taxable municipal bonds, which provides more yield than treasuries.
- Ms. Carol Kostik, Deputy Controller for Public Finance, explained that the rating agency, Standard and Poor's, which rates tobacco bonds, does not provide ratings for bonds that mature more than 30 years in the future. When the maturity was extended, it had to create some bonds that are not rated at this point. The expectation is that when later maturities get within the 30-year time period they will also be given low investment-grade ratings from Standard and Poor's at that time.

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

New York City Tax Lien Trusts

The next agenda item was the review of the financial statements and management letter of the New York City Tax Lien Trusts (NYCTLs) for the fiscal year ended June 30, 2016. Mr. Alan Anders, introduced the other representatives of NYCTL present, and Mr. Joseph Kehm, a representative of Toski & Co., P.C., NYCTLs independent auditors for the Trusts listed below:

- NYCTL 1998-2
- NYCTL 2014-A
- NYCTL 2015-A

- NYCTL 2016-A

Mr. Anders noted that fiscal year 2016 was the 22nd year for the NYCTLs, and the proceeds for fiscal year 2016 were \$54 million, of which \$43 million went for property taxes that were in arrears, and \$11 million went to DEP. The financial importance of the NYCTLs is not the upfront proceeds generated or the revenues that it collects. Rather, the NYCTL program provides the incentive for people to pay back taxes and/or delinquent water charges. The 90-day notice refers to the initial notice the City must give to delinquent taxpayers and ratepayers before a lien is sold. The notice was for \$890 million of delinquent charges. At the end of the notice periods, only \$54 million of liens for unpaid delinquent charges were sold. When taxpayers and rate payers get the lien sale notice, they pay.

Mr. Joseph Kehm reported:

- For the four entities that have financial statements issued under NYCTLs, Toski and Co. issued unmodified opinions. There were no internal control matters noted, and there were no findings related to compliance
- Each NYCTL has a Report to the Board letter.
- NYCTLs does not have an Audit Committee.
- Marks Paneth prepares the NYCTLs financial statements while Toski performs the independent audits.

A question and answer session followed. Several matters were discussed, including:

- A Trust is established every year for each set of tax liens that are securitized. The Trust established in a given year issues bonds to finance the purchase of liens securing those

bonds; each pool of liens stands on its own apart from other trusts. Once the bonds are paid off, the remaining liens are transferred to the 1998-2 Trust. The 1998-2 Trust will exist indefinitely and is basically the residual repository of liens that were once securitized.

- The Brownfield liens are enclosed in a separate LLC, a wholly-owned subsidiary of the 1998 Trust, to protect the Trust from environmental liability. To avoid taking ownership of polluted property and possibly becoming liable for clean-up costs under federal regulations, the LLC never takes title to the properties. (The Trust is never in the chain of ownership.)
- There is typically one lien sale per year.

There being no further questions, Chairman Rosen thanked the representatives of the NYCTLs for their participation at today's meeting.

New York City 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 fiscal year ended June 30, 2016. Mr. Balducci, Assistant Treasurer of TDC, introduced Ms. Marge Ginsburg, Acting President of TDC, who introduced the other representatives of TDC present, and Mr. Warren Ruppel, representative of Marks Paneth, TDC's independent auditors.

Ms. Ginsburg reported that TDC is a non-profit that was created in 2012. TDC works on large-scale information and technology projects for City agencies. There are 19 employees in TDC. Some of the projects TDC is involved in are Universal Pre-K and the NYC Department of Finance Tax System rollout. TDC is a captured IT consulting firm. The City contract is registered with the Mayor's Office. The primary source of revenue is a \$5 million contract per year with The City of New York. It was originally a three-year contract with two one-year renewals. The Mayor's

office has determined not to renew the contract and, therefore, TDC will dissolve June 30, 2017.

Department of Information Technology and Telecommunications (DoITT) and the other City agencies will provide their own services or procure them on the outside. Many of the City agencies have their own Information Technology (IT) organizations, and they will have to either create lines or hire outside consultants.

Mr. Ruppel noted that there was a restatement to fiscal year 2015 financials due to the failure to record accrued leave balances. They are now reflected in fiscal year 2016. Due to the fact that there was a material misstatement, the management letter reports that it is indicative of material weakness in internal controls.

A question and answer session followed. Several matters were discussed, including:

- TDC employees are not City employees.
- Ms. Michele Levine questioned the salaries and benefits where it indicated that the salaries and benefits associated with increased head count constituted the majority of the roughly \$700,000 increase. The salaries of employees range from \$75,000 to upwards of \$190,000. Ms. Levine asked that TDC send to the Committee Secretary the percentage of the \$700,000 that was associated with the four-person increase, however representatives of TDC indicated that the detail was available in the notes to the financial statements.
- TDC was not involved in the implementation of Link NYC.

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

V. Executive Session

There being no further business for the public session, Chairman Rosen asked for a motion to enter Executive session. Ms. Levine made a motion to go into Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

Following the conclusion of the Executive Session, Ms. Levine made a motion to adjourn the February 22, 2017 public session of the Audit Committee, the motion was unanimously approved.