



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, FEBRUARY 28, 2018
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Umair Khan
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Marla Hummel, Michael Ryan, Cosmo Saginario Toski & Co., P.C. – Brent Jensen Marks Paneth LLP – Daniel McElwee, Warren Ruppel, Melissa Szot, Sibi Thomas
Others	Sales Tax Asset Receivable Corporation (STAR) – Alan Anders, Robert Balducci, Kenny Narine, Jay Olson New York City Tax Lien Trusts (NYCTLs) – Alan Anders, Robert Balducci, Jay Olsen New York City Technology Development Corporation (TDC) – Robert Balducci, Michael Pastor, Denise Raymond New York City Water and Sewer System (System) – Alan Anders, Robert Balducci, Joseph Murin, Nameca Sharma Hudson Yards Development Corporation (HYDC) and Hudson Yards Infrastructure Corporation (HYIC) – Alan Anders, Robert Balducci, Angela Cavaluzzi, Susan Gil, Kenny Narine, Jay Olson New York City Transitional Finance Authority (TFA) – 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 Mayor’s Office of Operations – Florim Ardolli, George Davis

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

New York City Comptroller’s Office – Camille Arezzo, Carmen Chan, Minyu Chen, Kelsey Cheng, Peter Flynn, Carol Kostik, Berta Lara, Vincenzo Lopes, Veronika Musheyeva, Joan Stapleton

New York City Independent Budget Office – Daniel Huber

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

Audit Committee Meeting – February 28, 2018

I. Call to Order and Roll Call

Mr. Bernard Rosen, Chairman of the Audit Committee, called the meeting to order at 9:30 a.m. Audit Committee Secretary, Ms. Katrina Stauffer, took roll call. The Mayor's representative, Mr. John Grathwol, was not present. There was a quorum.

II. Approval of Draft Minutes of the Audit Committee Meeting held January 24, 2018

The next agenda item was the approval of the draft minutes of the January 24, 2018 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 any non-substantive editorial comments submitted to Ms. Stauffer; the Committee approved the draft minutes of the January 24, 2018 Audit Committee Minutes.

III. Approval of Annual Report of the Audit Committee of The City of New York

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

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

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities for the fiscal year ended June 30, 2017:

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

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, 2017.

Mr. Robert Balducci, Comptroller of STAR, introduced the other representatives of STAR present, and Mr. Brent Jensen of Toski & Company, P.C., STAR's independent auditors. All entities will be represented today by the same group of presenters and additional participants will be introduced for their respective entities.

STAR received \$170 million and paid \$169 million of expenses, principal, and interest.

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

- Bonds will be outstanding for another 17 years.
- Bond premiums are considered to be other financing sources in the government funds and are reported as part of the long-term debt.
- The 2015 payment to TFA was the realization of bond refunding savings.

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

New York City Tax Lien Trusts

The next item was the review of the financial statements and management letters of the New York City Tax Lien Trusts (NYCTLs) for the fiscal year ended June 30, 2017. Mr. Balducci introduced the other representatives of NYCTL present, and Mr. Brent Jensen of Toski & Company, P.C., NYCTLs' independent auditors for the Trusts listed below:

- NYCTL 1998 – 2
- NYCTL 2015 – A
- NYCTL 2016 – A
- NYCTL 2017 – A

There are no NYCTL employees or officers. The NYCTL program is administrated jointly by the Office of Management and Budget (OMB) and the Department of Finance (DOF). The program provides an enforcement mechanism for delinquent property taxes and the Water Board's water and sewer fees. The lifecycle generally is to issue bonds, collections repay the debt, and liens that remain in those active Trusts are consolidated in the 1998-2 Trust, which is the repository for liens after bonds secured by such liens are sold. Bonds of the 2015-A Trust

outstanding as of June 30th were subsequently paid and the remaining liens have been consolidated with the 1998-2 Trust.

For 2017, bond sale activity generated approximately \$60 million in proceeds, of which \$50 million was paid to the DOF for property tax collections, and a little over \$10 million was paid to the Water Board. In addition, the 1998-2 Trust provided just under \$60 million of residual cash flow to the City and the Department of Environmental Protection (DEP).

The NYCTL financial statements were moved to a business-type of proprietary fund financial statement. The prior year has been represented and restated in the current year's financial statements to conform to business-type activity presentation. Assets and liabilities are now segregated into current and non-current portions; revenues and expenses are now classified as operating or non-operating; and a statement of cash flows is now presented. A unmodified opinion was given on business-type activities of each of the NYCTLs. There were no material weaknesses or significant deficiencies to report.

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

- This is still a governmental accounting type statement and considered a governmental proprietary fund done on full accrual basis of accounting, but Governmental Accounting Standards Board (GASB) rules apply.
- Overages due taxpayers can be the result of differences between the payoff quote provided and when the check is posted, resulting in a refund of interest accrual compounded daily. The same would apply for the final settlement documents in a foreclosure.

- The Securities and Exchange Commission (SEC) risk retention regulations dictate that the issuer of bonds has to hold at least 5 percent interest in securities issued.
- Regarding the increase in allowance for doubtful accounts, tax liens keep accruing interest, even though face value of lien may exceed value of property. The value of property versus value of liens is evaluated, and the result is an amount based on the expected collectability.
- The 1998-2 Trust has no debt outstanding and most liens came from other Trusts that did securitize. These liens are basically free and clear of any debt and collections would go straight to City or Water Board.

There being no further questions, Chairman Rosen thanked the representatives of the NYCTLs for their participation in 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, 2017. Mr. Balducci stated that his role was as an advisor, provider of accounting services, and financial statement preparer for TDC, and introduced Mr. Michael Pastor, General Counsel at the Department of Technology and Telecommunications (DoITT), Ms. Denise Raymond, Program Quality Oversight Lead at DoITT, and Mr. Ruppel, representative of Marks Paneth, TDC's independent auditors. Mr. Pastor and Ms. Raymond were named as TDC officers to close out the company. Operations for this entity ceased on June 30th, 2017.

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

- These are the financial statements bringing the entity to a close.
- The Committee inquired whether concerns from last year's presentation had been addressed regarding whether information was provided to employees of TDC regarding their legal obligations as employees of The City of New York.
- The Committee verified that, for the comparative presentation of the City's 2018 Comprehensive Financial Annual Report (CAFR), TDC will appear one last time.

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

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 (System) for the fiscal year ended June 30, 2017.

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

The financial statements of the Water Board and the Municipal Water Finance Authority are combined. The operations of the System is managed and run by the DEP. The ratings of the Water Authority are AA1, AA+, AA+, which is higher than the City. In 2017 there were \$2.8 billion in bonds issued, of which \$1.1 billion was for refinancing.

The System had another good year operationally, and with regards to revenue and capital; it continues to have a robust capital program that covers the necessary upgrades to the wastewater

treatment system; water and sewer system; and upstate assets. Initiatives related to harbor water quality and stormwater are taking a lot of effort to ensure systems are operating efficiently. The automatic meter reading (AMR) system has been a success, with the collection of the approximately \$4 billion a year it takes to run the System. Projects ongoing include a cogeneration at the North River Plant; upgrades to digesters at Hunts Point Plant; the City's Water Tunnel No. 3 initiative; upgrades to the Ashokan reservoir system; and planning for the Kensico connection tunnel, now that the ultraviolet filtration plant is online.

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

- The Mayor has ordered the third water tunnel in Brooklyn and Queens to be prepared so that, if there were emergency, the tunnel could be activated for the entire City, but there is significant work still to be completed over the next five to six years.
- Remediation of the old tunnels is not expected to start for at least ten years. Long-term lead time is needed to prepare and make sure a redundant backup is in place.
- The System's representatives will check to see if the Newtown Creek Water Control Plan has been accepted by the New York State Department of Environmental Conservation (DEC). The System has been working closely with DEC on 11 water bodies that do not receive the flow needed to keep them fresh.
- Newtown Creek is a superfund site and related parties are working with the Environmental Protection Agency in determining the principal responsible parties. This is expected to be a multiyear process.

- Gowanus Canal is another superfund site and the System is working closely with the Environmental Protection Agency to concurrently implement the necessary stormwater controls.
- Any delays regarding the creeks are more about the stormwater control measures being set in place. Newtown and Gowanus will require intensive capital improvements, remediation, and determination of how responsibility will be divided.
- In the last decade a number of green initiatives have been implemented working within the public sector, and there are plans to reach out to private entities and other property developers to determine how to partner with them to manage their stormwater controls.
- The AMR system has been phenomenal in terms of keeping collections more current.
- The System is in the process of procuring a new billing system and hope to have a vendor selected by spring 2018.
- With respect to cybersecurity, work is done very closely with DoITT, the City police department, and local and Federal entities for planning and implementation of security for the properties. The capital budget includes \$100 million allocated for security upgrades across the system. Mock exercises and drills are conducted to assure the water system is protected against any sort of infiltration.

There being no further questions, Chairman Rosen thanked the representatives of the System 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 letters of the Hudson Yard Development Corporation (HYDC) and the Hudson Yard Infrastructure Corporation (HYIC) for the fiscal year ended June 30, 2017.

Mr. Balducci, Comptroller of HYIC, introduced Ms. Angela Cavaluzzi, President of the HYDC, and others present for these entities. This year was a turning point in terms of the bond issuance and the finances in Fiscal Year 2017. There was a \$3 billion contribution from City to build a railroad extension on the Number 7 Line coming in from Shea Stadium, past Times Square, over to 10th Avenue, and down to 34th Street. The plan was for the system to be self-supporting. A bond refinancing was conducted in 2017 to accelerate the date when money would start flowing through the City, from 2023 or 2024 to May of 2017.

Ms. Cavaluzzi stated that HYDC is almost near completion of the Number 7 Line. Work is still being done on the secondary entrance, but the substantial completion date is targeted for September of 2018.

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

- The City has not paid interest support payments since 2015.
- Most of the eastern rail yards are estimated to be completed between March and May of 2019. One Manhattan West building is completed, another is scheduled for completion in 2020, and 50 Hudson Yards scheduled for 2022.

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, 2017. Mr. Balducci, Comptroller of TFA, introduced the other representatives of TFA present, and Mr. Ruppel, representative of Marks Paneth, TFA's independent auditors. In 2017, ratings discussed in prior years remain unchanged. The TFA issued \$4.5 billion of new money future tax secured bonds for capital purposes, and over \$800 million for refinancing, which generated significant debt service savings over the City's financial plan period. TFA collected over \$11 billion of income tax, retained about \$2 billion of it to fund debt service due in the year, and remitted the remainder back to City to fund City operations. TFA also retained building aid and paid the building aid revenue bond debt service. The TFA received close to \$2 billion of the grants from the City, with a \$100 million of that received from HYIC related to its refunding.

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

- Part of the outstanding debt of TFA is included in the calculation of the City's debt incurring power.
- The TFA's most recent statutory issuance expansion was explicitly not a mechanism to get more debt incurring power over the constitutional debt limit, but rather a way to diversify funding sources.
- The word "expenditure" for is used for fund financials and the word "expense" for government-wide financials, as per accounting standards.

There being no further questions, Chairman Rosen thanked the representatives of the TFA 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, 2017. Mr. Balducci, Comptroller of TSASC, introduced the other representatives of TSASC present, and Mr. Ruppel, representative of Marks Paneth, TSASC's independent auditors.

This is the securitization of a portion of the City's share of the 1998 tobacco master settlement agreement. Of the New York State portion of the national settlement, the State is allocated 51 percent of the annual payment every April 15th. The City gets 27 percent, and other counties get 22 percent.

In January 2017, a billion-dollar refinancing occurred, which allowed a restructuring of the debt.

TSASC received \$59.9 million instead of the estimated \$66.7 million. Initial projections for revenue from Indian reservation cigarette sales were higher than previously estimated.

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

Fiscal Year 2005 Securitization Corporation

The next 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, 2017. Mr. Balducci, Comptroller of FSC, introduced the other representatives of FSC present, and Mr. Ruppel, representative of Marks Paneth, FSC's independent auditors.

FSC was incorporated for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing certain issues of the City's general obligation bonds. FSC's investments, which are held by the trustee for FSC, as they mature are expected to generate sufficient cash flow to fully fund the debt service and the operations of FSC for the life of FSC bonds.

There being no questions, Chairman Rosen thanked the representatives of FSC 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; a motion was made 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.

VI. Return to Public Session: Vote on 2017 City of New York Single Audit Report and Corrective Action Plans

Following the Audit Committee's return to public session, a motion was made and seconded to approve the auditor's report on the Single Audit for fiscal year ended June 30, 2017. The motion was approved.

VII. Adjournment

Following the conclusion of the Executive Session, a motion was made to adjourn the February 28, 2018 Audit Committee Meeting; the motion was unanimously approved.