

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON MARCH 20, 2019

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:04 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on March 15, 2019 and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Shelly L. Cohen, Committee Chair
Elkan Abramowitz, Committee Member
Mark Fischl, Committee Member
Drew Biondo, Trustee
Peter Gollon, Trustee**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Kenneth Kane, Interim Chief Financial Officer, Bobbi O'Connor, Vice President of Policy & Strategy and Secretary to the Board of Trustees; Donna Mongiardo, Vice President and Controller; Kathleen Mitterway, Vice President of Audit; and Mark Smith, Manager of Rates.

Representing PSEG LI were Markus Ramlall, Director of Finance; Richard Tinelli, Manager of Regulatory Requirements; and John Keating, Manager, Economic & Community Development, Customer Experience.

Representing KPMG were John Pontecorvo, Todd Fowler and Ed Lee.

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

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the January 23, 2019 Committee meeting.

Upon motion duly made and seconded, the minutes of the January 23, 2019 meeting were approved unanimously.

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

Ms. Mongiardo presented the Overview of Financial Results, and Mr. Ramlall and Mr. Tinelli of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is Discussion of Internal Audit Activities to be presented by Kathleen Mitterway.

Ms. Mitterway presented the Authority's Internal Audit Activities and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is Recommendation for Approval of the 2018 Investment Report and 2019 Board Policy on Investments, to be presented by Kenneth Kane.

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

Requested Action

The Finance and Audit Committee (the "Committee") of Board of Trustees of the Long Island Power Authority (the "Authority") is requested to adopt a resolution recommending approval of: (i) the Authority's Annual Investment Report for 2018 in the form attached hereto as Exhibit "B"; and (ii) the 2019 Board Policy on Investments in the form attached hereto as Exhibit "D".

Annual Investment Report for 2018

Section 2925 of the Public Authorities Law ("PAL") requires that the Authority annually review and approve an investment report. The Authority's investments are either (i) managed by an investment manager in primarily short term, highly liquid investments; or (ii) invested in broad-based, low cost equity and fixed-income mutual funds. All investments of Authority funds are governed by the Board Policy on Investments.

The Authority's investments were compliant with the terms and conditions of the Policy for 2018 and performed consistent with Staff's expectations given the nature of the investments.

2019 Board Policy on Investments

The Board is also required by Section 2925(6) of the PAL to annually review and approve the Board Policy on Investments that details the Authority's operative instructions to staff regarding the investing, monitoring and reporting of funds of the Authority. The Board Policy on Investments was last reviewed and approved on March 29, 2018.

The proposed revisions to the Board Policy on Investments seek to clarify, simplify and ensure continued compliance with the various contractual and regulatory requirements.

Based on Staff's review, which was performed in consultation with the Authority's investment advisor, bond counsel and disclosure counsel, Staff proposes the following amendments to the Policy:

- With respect to the Policy requirements of the Authority's OPEB Account, the proposed changes include: (i) decreasing the allocation to domestic equity mutual funds from 45% to 40%; (ii) increasing the allocation to international equity mutual funds from 20% to 25%; and (iii) eliminating provisions dealing with the purchase of individual securities, as all funds are held in mutual funds.
- With respect to the Policy requirements of the Authority's Nuclear Decommissioning Trust Fund ("NDTF"), the proposed changes include: (i) increasing the allocation to domestic and international equity mutual funds from a combined 50% to a combined 55%; (ii) separately delineating the portion of equity mutual funds held in domestic equity mutual funds as 35% and the portion held in international equity mutual funds as 20% (previously, the Policy stated that no more than half of the 50% allocated to equity mutual funds could be invested in international equity mutual funds); and (iii) allocating a portion of the funds to be held in fixed income mutual funds to funds holding inflation protected bonds. Additionally, the Authority is in the process of liquidating investments in individual fixed income securities and buying fixed income mutual funds for the NDTF. As such, Staff recommends removal of the portion of the Policy relating to individual securities to simplify the investment guidelines.
- The addition of provisions to authorize specific individuals who are permitted to transact on behalf of the Authority with certain commercial banks or financial institutions subject to certain minimum rating conditions as set forth in the Policy.
- Certain other nonmaterial and clarification changes.

All proposed changes to the Policy are more fully set forth in Exhibit "C".

Recommendation

Based upon the foregoing, I recommend the approval of the above requested action by adoption of resolution in the form attached hereto as Exhibit "A".

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

RESOLUTION RECOMMENDING APPROVAL OF THE ANNUAL INVESTMENT REPORT FOR 2018 AND THE 2019 BOARD POLICY ON INVESTMENTS

RESOLVED, that the Finance and Audit Committee of the Board of Trustees (“the Committee”) hereby recommends approval of the Annual Investment Report for the period ended December 31, 2018, in the form presented at this meeting; and

BE IT FURTHER RESOLVED, that the Committee hereby recommends approval of the revised Board Policy on Investments in the form presented at this meeting to be effective immediately.

Chair Cohen stated that the next item on the agenda is Recommendation for Approval of the Annual Review and Amendments to the Board Policy on Economic Development to be presented by Mark Smith and John Keating.

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

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (the “Board”) is requested to adopt a resolution recommending: (i) approval of the annual report on the Board Policy on Economic Development (the “Policy”); (ii) finding that the Long Island Power Authority and its subsidiary, LIPA (collectively the “Authority” or “LIPA”) have complied with the Policy; and (iii) approval of certain amendments to the Policy, which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No. 1356, dated March 29, 2017, the Board adopted the Policy with the purpose of promoting the economic growth and vitality of LIPA’s service territory and the efficient use of utility plant and equipment.

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that the Authority has complied with the Policy since the review of the policy last year.

The Policy requires that “the Board of Trustees monitor performance of the Policy through an annual review of the economic development rates and programs offered by LIPA and its Service Provider with an emphasis on: (i) reviewing customer and other stakeholder participation in such economic development rates and programs and assessing the costs and benefits of such programs; (ii) monitoring the number of jobs and businesses supported by the economic development activities of LIPA and its Service Provider, including the portion

of such jobs and businesses that were newly attracted to the service territory based on the availability of economic development rates and programs; and (iii) monitoring the consistency and coordination of economic development activities with State and regional efforts and industry best practices.”

“Reviewing customer and other stakeholder participation in such economic development rates and programs and assessing the costs and benefits of such programs.”

- Existing and new economic development programs have helped 309 commercial customers in 2018;
 - 251 customers received lower power supply costs totaling \$21.9M.
 - 58 customers received credits lowering their energy delivery costs by \$1.76M.
- 18 economic development customers have further benefited by reducing 600,000 kWh in energy usage through the award of \$132,000 in energy efficiency rebates.

“Monitoring the number of jobs and businesses supported by the economic development activities of LIPA and its Service Provider, including the portion of such jobs and businesses that were newly attracted to the service territory based on the availability of economic development rates and programs.”

- Overall, since 2012 the existing and new economic development activities have supported businesses who have committed to add 9,300 new jobs throughout the service territory.

“Monitoring the consistency and coordination of economic development activities with State and regional efforts and industry best practices.”

- PSEG Long Island maintains membership in both the New York State Economic Development Council (“NYSEDC”) and the Long Island Business Development Council (“LIBDC”). These are the two principal economic development organizations in the region.

Both the NYSEDC and LIBDC assist in PSEG Long Island maintaining a network of colleagues and meetings where best practices and lessons learned are reviewed and discussed.

Annual Review of the Policy

Staff proposes the following revisions to the Policy:

- To amend the annual reporting requirement so that the Policy is reviewed by the Finance and Audit Committee of the Board of Trustees, and to make the annual reporting requirement consistent with other Board policies.
- Certain other non-material amendments to the elements of the Policy for clarity.

The proposed changes are more specifically shown on in Exhibit “B”.

Recommendation

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

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

RESOLUTION RECOMMENDING APPROVAL OF THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON ECONOMIC DEVELOPMENT

WHEREAS, the Board Policy on Economic Development (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1356, dated March 29, 2017; and

WHEREAS, the Finance and Audit Committee of the Board of Trustees (the “Committee”) has received the annual Staff report on compliance with the Policy; and

WHEREAS, the Committee has reviewed the Policy and recommends approval of the changes to the Policy, as recommended by Staff.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Committee hereby recommends that the Board of Trustees: (i) find that the Authority has complied with the Policy for the period since the last annual review of the Policy; (ii) approve the annual report to the Board; and (iii) approve updates to the Policy, as described in the accompanying memorandum.

Chair Cohen stated that the next item on the agenda is Discussion of the 2018 Audit Results with Independent Auditors to be presented by Donna Mongiardo and representatives from KPMG, John Pontecorvo, Todd Fowler and Ed Lee.

Ms. Mongiardo and the representatives from KPMG presented the Discussion of the 2018 Audit Results and then took questions from the Trustees.

At approximately 9:02 a.m., Chair Cohen stated that the Committee would adjourn to Executive Session to discuss personnel matters with KPMG. Chair Cohen stated that no votes would be taken and that the Committee would resume its open session.

After noting that no votes were taken in the Executive Session, the public portion of the meeting of the Finance and Audit Committee reconvened at approximately 9:22 a.m.

Chair Cohen stated that the last item on the agenda is Recommendation for Approval of the 2018 Financial Report, to be presented by Donna Mongiardo.

Ms. Mongiardo presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee of the Board of Trustees (the “Committee”) of the Long Island Power Authority (the “Authority”) is requested to recommend approval of the 2018 Financial Report of the Authority (the “Financial Report”) prepared in accordance with Section 2800(1) of the Public Authorities Law (“PAL”), in the form attached as Exhibit “B”.

2018 Financial Report

Section 2800(1) of the PAL requires the Authority to submit an annual report to the Governor, the Chairman and ranking minority member of the Senate Finance committee, the Chairman and ranking minority member of the Assembly Ways and Means committee, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of the Authority’s fiscal year.

Under Section 2800(1)(a)(2) of the PAL, the Financial Report shall include the following: audited financials; grant and subsidy programs; operating and financial risks; current bond ratings; and long-term liabilities. Section 2800(3) of the PAL requires the Financial Report to be approved by the Board of Trustees.

Recommendation

Based upon the foregoing, it is recommended that the Committee adopt the resolution in the form attached hereto as Exhibit “A”.

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

RESOLUTION RECOMMENDING APPROVAL OF THE 2018 FINANCIAL REPORT OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, Section 2800(1) of the Public Authorities Law (“PAL”) requires public authorities such as the Long Island Power Authority (the “Authority”) to prepare an annual report; and

WHEREAS, the Authority’s annual report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of the PAL (the “Financial Report”); and

WHEREAS, the Authority has prepared its Financial Report, which, pursuant to Section 2800(3) of the PAL, is subject to the approval of the Board of Trustees.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends approval of the 2018 Financial Report of the Long Island Power Authority, in the form presented at this meeting.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:24 a.m.
