



Date: November 7, 2016
To: THE TRUSTEES
From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER
Subject: Release of Funds in Support of the NYS Canal Corporation and NYS Canal System

SUMMARY

The Trustees are requested to authorize and ratify the release of up to \$106.4* million in funding to support costs associated with the transfer of the New York State Canal Corporation (“Canal Corporation”) and specified powers, duties and jurisdiction relating to the NYS Canal System (“Canal System”) from the New York State Thruway Authority (“Thruway Authority”) to the Authority (the “Canal Transfer”) including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through January 1, 2017 as authorized by legislation approving the 2016-17 Budget of the State of New York (Part TT of Chapter 54 of the Laws of 2016) (hereinafter the “Canal Transfer Legislation”), and (2) Authority integration costs for 2016 associated with the Canal Transfer.

BACKGROUND

The Authority has been authorized to provide financial support for the Canal Transfer but the expenditures associated therewith do not constitute Operating Expenses as defined in the Authority’s General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented (“Bond Resolution”). Accordingly, any expenditures for such purposes must satisfy the requirements of the Authority’s Bond Resolution relating to the release of funds from the trust estate created by the Bond Resolution for lawful corporate purposes. In addition, as set forth in the Trustees’ Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 is to be used as a reference point in considering any such expenditures.

The Bond Resolution permits the Authority to withdraw monies “free and clear of the lien and pledge created by the [Bond] Resolution” provided that (a) such withdrawals must be for a “lawful corporate purpose as determined by the Authority,” and (b) the Authority must determine, taking into account among other considerations anticipated future receipt of revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt or (iv) payment of interest and principal on subordinate debt.

DISCUSSION

The Canal Transfer Legislation authorized the Authority, as deemed feasible and advisable by the Trustees, to reimburse the Thruway Authority for any and all operating and capital costs for the operation and maintenance of the Canal Corporation and the Canal System for the period of April 1, 2016 through January 1, 2017 in advance of the January 1, 2017 implementation date set forth in such legislation for the transfer of the Canal Corporation to the Authority. In addition, the Authority has incurred and expects to incur integration costs in 2016 associated with the Canal Transfer. In total, the Authority estimates \$106.4 million in reimbursement costs and integration costs for 2016.

Pursuant to the Canal Transfer Legislation, the Authority entered into an agreement with the Thruway Authority ("Canal Reimbursement Agreement") to reimburse the Thruway Authority for any and all operating and capital costs for the operation and maintenance of the Canal Corporation and the Canal System for the period of April 1, 2016 through January 1, 2017.

In accordance with the Board's Policy Statement adopted May 24, 2011, staff calculated the impact of \$106.4 million in expenditures on the Authority's debt service coverage ratio and determined that these expenditures would result in a debt service coverage ratio of 1.80 which is below the 2.0 reference point. For purposes of the Board's Policy Statement these expenditures are treated as amounts being withdrawn or paid out directly or indirectly to a State entity, so that such expenditures will be "Prior Contributions to the State" under such Policy Statement. In March of 2016, the Authority released \$71 million in voluntary contributions to the State which was related to the State's prior fiscal year 2015 - 2016. The combined effect of the release in funds to support the Canal Transfer and implementation costs, and the release of funds for the Voluntary Contribution is the primary reason for the debt service coverage calculation falling below the 2.0 reference point in 2016. The debt service coverage ratio as calculated per the Board Policy Statement is expected to remain below the 2.0 reference point at least until the voluntary contribution is no longer a component in the calculation, which is at the end of March 2017. Staff will provide continuous updates to the Board during development of the 2017 – 2020 financial forecast.

Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to release such amounts from the trust estate created by the Bond Resolution consistent with the terms thereof.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund to release up to \$106.4* million in funding to support costs associated with the Canal Transfer and that such Authority funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's Bond Resolution. The Canal Transfer Legislation was enacted subsequent to approval of the Authority's 2016 Operating Budget approved by the Trustees in December 2015 and expenses associated with the transfer and integration were not anticipated for and were not included in the 2016 Operating Budget.

RECOMMENDATION

The Treasurer recommends that the Trustees affirm that the release of up to \$106.4* million in funding to support costs associated with the Canal Transfer is feasible and advisable, that such funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's Bond Resolution and that the release of such funds is authorized and ratified.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the Trustees hereby authorize and ratify the release of up to \$106.4* million in funding to support costs associated with the transfer of the New York State Canal Corporation and specified powers, duties and jurisdiction relating to the NYS Canal System from the New York State Thruway Authority (“Thruway Authority”) to the Authority (the “Canal Transfer”) including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through January 1, 2017 as authorized by legislation approving the 2016-17 Budget of the State of New York (Part TT of Chapter 54 of the Laws of 2016), and (2) Authority integration costs for 2016 associated with the Canal Transfer as discussed in the foregoing memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That the total amount of up to \$106.4* million in funding as described in the foregoing resolution is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented and providing such amount is feasible and advisable; and be it further

RESOLVED, That as a condition to making the payments specified in the foregoing resolution, on the day of such payments, the Treasurer or the Deputy Treasurer shall certify that such monies are not then needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Corporate Secretary, the Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all

actions and execute and deliver any and all certificates, agreements and other documents that they, or any of them, may deem necessary or advisable to effectuate the foregoing resolution, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

*Staff amended its request and the Trustees adopted \$60 million and not \$106.4 million in funding at the November 7, 2016 meeting.