ALBANY COUNTY AIRPORT AUTHORITY
ALBANY INTERNATIONAL AIRPORT
ADMINISTRATION BUILDING
SUITE 200
ALBANY, NEW YORK 12211-1057

TEL: 518.242.2222
ADMIN FAX: 518.242.2641
FINANCE FAX: 518.242.2640
SITE: www.albanyairport.com

ACAA - finance committee APPROVED 3/23/09

ACAA - audit committee APPROVED 3/1/10

Minutes of the Finance Committee and Audit Committee Meeting

of the Albany County Airport Authority

February 23, 2009

Pursuant to notice duly given and posted, the Finance and Administration Committee and Audit Committee meeting of the Albany County Airport Authority was called to order on Monday, February 23, 2009 at 9:38 am in the Administration Building, 2nd Floor Conference Room, located at the Albany International Airport by Finance Committee Chair Daniel M. Sleasman and Audit Committee Chair Elliott A. Shaw with the following present:

FINANCE COMMITTEE MEMBERS PRESENT	MEMBERS ABSENT
Daniel M. Sleasman, Chair Finance Committee	None
Richard J. Sherwood	
Elliott A. Shaw	

AUDIT COMMITTEE MEMBERS PRESENT	MEMBERS ABSENT
Elliott A. Shaw, Chair Audit Committee	Henry E. Dennis, Jr.
Richard J. Sherwood	

STAFF

John A. O'Donnell
Bill O'Reilly
Margaret Herrmann
Peter Stuto
Doug Myers
Ginger Olthoff

ATTENDEES

Jim Amell, Marvin & Company

1. Approval of Minutes

1.1 Finance and Administration Committee: November 24, 2008

Chair Sleasman moved to approve the November 24, 2008 minutes. The motion was unanimously adopted.

1.2 Audit Committee: December 10, 2008

Chair Shaw reported that the Audit Committee had met with Marvin and Company and received an update on the 2008 audit. He stated that with this meeting, the Audit Committee had met its requirement to meet two times per year, as required in the Audit Committee Charter.

Mr. Amell noted that he was referred to as Ms. Amell in several locations of the minutes. Chair Shaw stated that the minutes will be amended to correct this.

Mr. Sherwood moved to approve the December 10, 2008 minutes, as amended. The motion was unanimously adopted.

2. Approval of Various Financial/Audit Items

2.1 Review of Plan to Implement GASBS 45

Mr. O'Reilly reviewed the Plan of Implementation for Governmental Accounting Standards Board Statement Number 45 – Other Postemployment Benefits.

Mr. O'Reilly stated that this was a required accounting standard that was issued in July of 2004 with a required implementation date of 2008. The standard requires that the current cost and accrued liability to provide postemployment benefits, other than pensions, (OPEB) be recognized and displayed in the Authority's financial statements issued for the year ended December 31, 2008. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits, i.e., life insurance, when provided separately from a pension plan. The Authority's only OPEB benefit is for the continuing provision of health insurance for vested retirees, as included in the Authority's Personnel Handbook.

He stated that due to the fact that the Authority has only been in existence for 14 years, the impact of implementing this standard was less than other municipalities. However, these costs will grow in the future unless the health insurance benefit is eliminated.

Mr. O'Reilly that that the Authority is eligible under GASBS 45 to use a simplified method of identifying the annual OPEB costs and accumulated liability defined as the Alternative Measurement Method (AMM). The AMM incorporates actuarial valuation including projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method. The Authority has obtained an AMM liability determination utilizing a calculation tool developed by Milliman, an actuarial and consulting firm. The following results were obtained using the Milliman's calculation tool:

- Annual Required Contribution (ARC) for OPEB for 2008 was $437,689 which includes $326,260 for current costs and $111,429 for amortization of the current unfunded liability over 30 years.
- The total Unfunded Actuarial Accrued Liability (UALL) at December 31, 2008 was $3,226,067.
- The UALL as a percentage of covered payroll was 171.51%.
- Amounts actually paid for OPEB during 2008 on a pay as you go basis was $16,648 equal to 3.8% of the annual OPEB cost and resulting in a Net OPEB Obligation of $421,041.

Mr. Shaw inquired as to whether any money was put aside for this beginning in 2004 when the new standard was announced. Mr. O'Reilly stated that during 2007, $35,000 was set aside for OPEB; however, these funds were reversed back to the Operating Account. In 2008 an OPEB expense of $385,000 per year was incorporated into the budget and deposited into a separate bank account at Citizen's Bank.

Mr. O'Reilly stated that the Airline Rates and Charges for 2008 do include the current year costs of the OPEB benefit. Upon discussions with Jacobs Consultancy, it was determined that these expenses could be included in the rates, as the Airline Use and Lease Agreement refers to eligible expenses as those in accordance with GAAP.

Mr. O'Reilly stated that although the OPEB expense of $385,000 per year has been incorporated into the budget and rates and charges for 2008 and 2009 and deposited into a separate bank account, under GASBS 45 they cannot be counted as a contribution toward the liability for OPEB. To be counted as a contribution toward the OPEB liability, the funds would have to be placed in an OPEB Trust that meets a separate accounting standard, GASBS 43.

Mr. O'Reilly stated that common belief is that a local government in New York cannot establish an OPEB trust without NYS legislation; however, Mr. Stuto has reviewed this and it appears that the Airport Authority does have the authority to set up an OPEB trust. He stated that the NY Power Authority, the City of New York, Orlando Aviation Authority, Massachusetts Port Authority and the Metropolitan Washington Airports Authority all have established OPEB trusts. Mr. O'Reilly stated that he was not asking for a decision on this now; however, he would like to present it for consideration in the future.

Mr. Shaw inquired as to whether the airlines are charged for the OPEB costs. Mr. O'Reilly stated that the costs were included in the budget and are allocated to several cost centers, not all of which are allocated to the airlines.

Mr. O'Donnell stated that the airlines pay approximately 34% of airport costs which are established in the rates and charges. All other expenses and revenues are split 50/50 and, therefore, affect the revenue sharing with the airlines.

Mr. Shaw inquired as to the method that was used to calculate the $421,041. Mr. O'Reilly stated that the calculation tool was developed by Milliman, an actuarial and consulting firm. The calculation took into account several factors, i.e., health care inflation of 9%, the future rate of return on the Authority's unrestricted funds deposit of 3.04% equal to the average rate of interest earned on deposits over 5 years, and future payroll inflation of 3%. This liability must be recalculated at least every 3rd year.

Mr. O'Reilly stated that the creation of an OPEB trust would have a favorable effect on the rates and charges. Currently, funds and their earnings are designated in the operating budget to pay for OPEB liabilities but the existence of these funds cannot be included in the calculation of the UAAL because they are not contributed to a qualified OPEB trust, thus no OPEB contribution is recognized under GASBS 45. As a result, the UAAL will continue to grow regardless of the fact that funds have been budgeted and designated to pay for it. Consequently, the annual GAAP OPEB expense and unfunded liability will continue to grow. Also, if the GAAP OPEB expense is included in the operating budget, the expense will continue to be allocated and billed to the airlines each year no matter how much we budget and collect for OPEB expenses as such amounts would never be credited as a contribution toward the liability.

Mr. O'Reilly stated that if the Authority were to create a qualified OPEB trust, funds designated to pay the liability would become restricted for that purpose. This would result in a benefit in the form of a reduced OPEB UAAL and reduced required annual amortization payment. This would allow for a reduction in the amount to be budged for the OPEB expense which will leave a favorable effect on the rates and charges.

Mr. O'Reilly stated that the net OPEB obligation of $421,041 will be amortized over a 30 year period. Mr. Amell stated that Marvin and Company auditors were comfortable with this.

Mr. O'Donnell stated that having a health care benefit such as this at 100% coverage by the Authority did place a burden on the Airport. However, in 2005, steps were taken to reduce the amount of coverage by the Airport; whereby, new employees are required to contribute 10% towards this benefit. He stated that this policy did conform with that of other public employers.

Mr. O'Reilly stated that he would like to revisit creation of an OPEB trust later this year.

Mr. Sherwood inquired if he could see a copy of the Power Authority OPEB trust. Mr. Stuto stated that he did have a copy that he would send to the Authority members.

Mr. Shaw inquired if there were any other unfunded liabilities that the Authority members should be made aware of. Mr. O'Reilly stated that discussion of GASBS 53 was an item on today's agenda.

Mr. Amell stated that there were no other unfunded liabilities.

2.2 Review of Plan to Implement GASBS 49

Mr. O'Reilly stated that GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, in November 2006. GASB 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Mr. O'Reilly stated that there are two areas of pollution that would affect the Airport, i.e., glycol contamination and asbestos remediation. He stated that there is an exception for pollution that is already being regulated, i.e., glycol contamination and there is no material asbestos remediation occurring at the Airport. Therefore, GASBS 49 will be implemented, as required, but it will not have an affect on the financial statements.

2.3 Review of Plan to Implement GASBS 53

Mr. O'Reilly stated that GASBS 53 was issued in June 2008 with a required implementation date for periods beginning after June 15, 2009. On March 31, 2005, the Authority entered into a Derivative Swaption Agreement by offering a forward starting Swap at 4.56% to be netted by 70% of one month LIBOR. A competitive solicitation resulted in an offer of $5,330,000 in an upfront payment based upon a Market Rate of 3.706%. The payment was recorded as a deferred revenue at the time with an intention to amortize it into revenue once the swap payments began on December 15, 2007 when a series of variable rate refunding bonds would be issued.

Mr. O'Reilly stated that GASBS 53 requires the upfront payment of $5,330,000 be viewed as a loan and the swaps embedded derivative be identified and reported at Fair Value, subject to deferral of income statement recognition provided the swap be determined an effective hedge against variable rate interest rates. On January 31, 2008 Series 2008A bonds were issued and under any plan of accounting we need to start to amortize the swaption upfront payment. The 2009 Operating Budget does not contemplate this as a deferral into revenue. The rates and charges recognize revenues and expenses as per generally accepted accounting principles.

GASBS 53 requires restatement to beginning net asset balance to implement. The swap's current fair value at 12/31/2008 was minus $18 million, of which about $5 million was the unamortized swap loan. The 2009 change in fair value was about $10 million. The hedge is not believed to be effective and the fair values would flow through the operating statement and balance sheet. Consideration needs to be given toward early implementation or what accounting standard we might follow if not implementing GASBS 53 this year.

Mr. O'Reilly stated that GASBS 53 has only been out for a short period of time. He stated that GASB is in the process of developing an implementation guide at this time. Mr. O'Reilly stated that he would like to review the guide when it comes out, after which he will make a recommendation to the Finance Committee on what accounting treatment to be followed.

Mr. O'Donnell inquired as to why the termination cost had to be shown on the statements when the termination was not executed and why it couldn't be shown as a footnote. Mr. Amell stated that the termination cost has to be shown as a requirement under GASB and it may be acceptable to footnote the amount. .

Mr. Sleasman stated that as this was an informational item, the Finance Committee will await Mr. O'Reilly's recommendations at a future meeting.

Mr. O'Reilly stated that he would discuss both Items 2.4 and 2.5 together. There were no objections.

2.4 Presentation of Preliminary 2008 Rates and Charges Settlement with Breakout By Airline

2.5 Presentation of Preliminary Draft 2008 Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

Mr. O'Reilly reviewed the Preliminary Draft 2008 Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets whereby GASBS 45 (Other Postemployment Benefits) has been factored in. However, items related to the Swaption and GASBS – 53 have not been factored into the statements.

Mr. O'Reilly stated that the results found in the statements are dependent upon the year end settlement amount of $1.7 million to be billed to the airlines. The year end settlement has been reviewed by Jacobs Consultancy and they did not express any concerns. He stated that Southwest Airlines and US Airways would be billed greater amounts than the remaining airlines. Mr. O'Reilly reported that the 2008 settlement compares to that of the 2003 the year end settlement amount of $1.6 million changed to the airlines.

Mr. O'Donnell stated that the rates for 2008 were set low with the anticipation of growth. He stated that Mr. Hadley's projections were very optimistic, as reflected in the very low rates.

Mr. Shaw inquired as to how this would be communicated to the airlines. Mr. O'Reilly stated that the formal settlement report will be sent to the airlines with a cover letter from Jacobs Consultancy who will give an opinion that the amounts owed were in accordance with the airline use and lease agreement. Mr. O'Reilly noted that the Airline Affairs Committee had met in October 2008 to review the preliminary budget for 2009 and they were advised at that time that the airlines would be billed approximately $500,000. They have not been advised of the increase in the amount to $1.7 million.

Mr. Shaw inquired as to how the airlines might react when they receive the increased bill. Mr. O'Reilly stated that the airlines were contractually obligated to paying the bill upon receipt of the settlement report. He stated that the airlines were accustomed to receiving detailed financial reports from Albany. He stated that these reports will be certified by Jacobs Consultancy and will explain the details of the settlement.

Mr. Sleasman stated that he would like to see contact made with the airlines alerting them to the fact that the amount as previously reported had increased substantially with an explanation of what had occurred since the Airline Affairs Committee meeting in October 2008.

Mr. O'Reilly stated that the August results were presented to the Airline Affairs Committee in October. Since that time, the bond leaked significantly, i.e., approximately $300,000, November enplanements were off by 15%, parking revenues were down as a result of the decrease in enplanements, and snow operations were extensive.

Mr. Sleasman stated that the airlines should be made aware of the increase so that they know what to expect. Mr. O'Donnell stated that staff does maintain contact with the Airlines Affairs Committee who does have a great deal of trust in the Authority. He noted that while other airports this size are down by 10% resulting in higher charges than anticipated, the Authority is only down by 5%.

Mr. Sleasman requested that staff reach out to the airlines rather than just sending a bill. Mr. Shaw agreed with Mr. Sleasman as to reaching out the airlines. Mr. O'Donnell stated that he will arrange a telephone conference call to review the rates and charges and discuss the reasons for the changes over the last 120 days.

Mr. O'Reilly requested a Finance Committee meeting be scheduled prior to the Board meeting to review and approve the 2008 Annual Report, Audit Report and Airlines Rates and Charges Settlement Report. The meeting was scheduled for March 2, 2009 at 5:15 pm.

There being no further business, the meeting was adjourned at 10:50 am.

Respectfully Submitted,

Daniel M. Sleasman, Finance Committee Chair
Elliott A. Shaw, Audit Committee Chair

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FINANCE AND ADMINISTRATION COMMITTEE
AUDIT COMMITTEE

JOINT MEETING

AGENDA

February 23, 2009

1. **Approval of Minutes**

    1.1 **Finance and Administration Committee: November 24, 2008**
    1.2 **Audit Committee: December 10, 2008**

2. **Approval of Various Financial/Audit Items**

    2.1 **Review of Plan to Implement GASBS 45**
    2.2 **Review of Plan to Implement GASBS 49**
    2.3 **Review of Plan to Implement GASBS 53**
    2.4 **Presentation of Preliminary 2008 Rates and Charges Settlement with Breakout by Airline**
    2.5 **Presentation of Preliminary Draft 2008 Statement of Net Assets and Statement of Revenues Expenses and Changes in Net Assets**