No. 06-02                Date Issued: October 1, 2006
Supercedes: New

Subject: Understanding Corporate Governance Concepts

Statutory Citation; Section 27, Chapter 766 of the Laws of 2005

Provision: A primary purpose of the Public Authorities Accountability Act is to codify in statute certain basic principles of effective corporate governance and to promote the understanding and adoption of these principles by State and local public authorities. The Authority Budget Office was established, in part, to assess the compliance of public authorities with these principles and to assist public authorities improve their management and disclosure practices.

Authority Budget Office Policy Guidance: The concept of "corporate governance" is generally understood to apply to the rules, policies and management practices established by an organization to help it conduct business consistent with its corporate and public responsibilities. These governance principles establish the culture, values, organizational structure and control systems that promote accountability and integrity; set a standard of ethical behavior; support comprehensive, accurate and transparent reporting and an objective review of financial practices; and engender loyalty toward the organization. When followed, effective corporate governance contributes to public confidence in the performance and decision making of an organization.

The Authority Budget Office (ABO), in consultation with the Commission on Public Authority Reform, is committed to achieving adherence to the Act and the principles of corporate governance. Accordingly, the actions, decisions and practices of the (ABC), and those of board members, management and appointing authorities, should be guided by the following tenets:

Transparency

- Public authorities should always conduct business in an environment that fosters transparency and enhanced public disclosure; focuses on accountability; and supports external oversight.

- The Board of Directors should instill and review a code of ethical conduct and competency in the organization; perform its oversight function in the interests of
the public and consistent with the mission of the authority; and accurately disclose
the financial condition, risks, liabilities and management practices of the authority in
regular public reports.

Fiduciary Duty

The Board of Directors should be empowered to exercise its fiduciary duties of
loyalty and care. Directors should always act in good faith and in the best
interests of the public authority. Directors should act using the same care that
any prudent person would exercise in a similar situation and under similar
circumstances. This will require that directors weigh the public’s interests and that of
their appointing authorities when taking on these duties.

The Board of Directors should be responsible for protecting the assets of the
authority and the interest of bond holders and the public.

Board Independence and Accountability

A Board of Directors that is informed, knowledgeable and engaged is integral to
effective corporate governance. Directors should have a basic understanding of
the primary business function and mission of the authority.

Those responsible for making appointments to the boards of public authorities
should take this obligation seriously by appointing knowledgeable and
conscientious individuals who have a commitment to serve and a willingness to
exercise management oversight, and who have a demonstrated intellectual
independence to carry out the mission of the authority consistent with the public
policy objectives of the State.

Separate Oversight and Executive Management Functions

The Board of Directors, working with executive management, should establish the
appropriate governance culture, philosophy and commitment to performance
throughout the public authority. Directors have a responsibility to provide active
oversight of management, and an obligation to make reasonable inquiry of
activities when appropriate.

Executive management should carry out those policies, making day-to-day operating
decisions and keeping the Board informed with sufficient information of its
actions, issues of concern, potential risks, and liabilities so that the Board can make
intelligent decisions. Executive management should also encourage Boards to stay
informed on corporate governance issues.

The ABO will periodically issue policy guidance that amplifies these principles to assist
public authorities in implementing the Act, and to incorporate these principles in the
authorities' business practices.