<u>*This document is considered to be in draft form until adopted by the Board on February 19, 2008*</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
INVESTMENT REPORT FOR FISCAL YEAR
ENDED OCTOBER 31, 2007

Explanation of Guidelines

The Hugh L. Carey Battery Park City Authority investment guidelines recite the limitations imposed by the law creating the Authority, the limitations imposed by the bond resolutions, and the policy and procedures adopted by the Authority for the investment of funds not held by a trustee under the bond resolutions.

The guidelines are designed to conform to Section 2925 of the Public Authorities Law and the Investment Guidelines for Public Authorities and Regulation 2 NYCRR (Part 203) issued by the Office of the State Comptroller.

Results of Independent Audit

As a part of the annual independent audit, the auditors have confirmed the list of securities held for us by banks and have found no discrepancy in our records.

Certain audit procedures were performed to test the effectiveness of the Authority's operations to its approved procedures. The auditors found that the Authority was compliance with established policies and internal control practices.

Investments

The Authority carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Authority's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in securities backed by the full faith and credit of the U.S. government, or municipal issuances of a credit quality no lower than 'A' grade, are held by the Authority's financial institutions in the Authority's name. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks.

Total investments and deposits held by the Authority at October 31, 2007 and 2006 included within the balance sheet accounts: investments, corporate-designated, escrowed, and post employment benefit funds, bond resolution funds (see note 9), and residential lease required funds are as follows:

	2007			2006		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	$ 43,700,486	46,924,932	4.30	$ 52,308,205	54,702,279	4.13
Commercial paper	91,987,254	92,376,392	0.11	72,836,787	73,058,851	0.07
Federal agency securities	302,538,581	304,945,337	0.73	316,051,602	317,846,504	0.65
Mortgage-backed securities	44,975,563	44,387,538	2.87	54,005,122	53,165,180	2.94
Municipal bonds	4,930,000	4,950,003	0.02	6,830,000	6,856,178	0.02
Total investments	488,131,884	493,584,202	1.14	502,031,716	505,628,992	1.17
Cash and cash equivalents	4,523,747	4,523,747		4,589,589	4,589,589	
Total investments & deposits	$ 492,655,631	498,107,949		$ 506,621,305	510,218,581	

(a) Portfolio weighted average effective duration.

The Authority's investment objectives for the portfolio are to generate a rate of return in excess of selected benchmarks (see Page 15), provide diversification of the total portfolio, and provide an appropriate level of liquidity for Authority operations.

The Authority's permitted investments (as provided for in Section 98 of the State Finance Law) include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, GNMA securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies, provided that their obligations receive the highest credit rating (Fannie Mae, Freddie Mac); (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days, provided that such obligations receive the highest rating of two independent rating services which as of October 31, 2007 were A1/P1; (iv) municipal bonds issued by New York authorities that currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term). The Authority's financial statements at October 31, 2007 breakdown fund funds by both type of investment (above), as well as, by fund or account.

Investments of amounts in funds and accounts established under the various 2003 Revenue Bond resolutions are presently restricted to obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Interest rate risk is the probability of loss on investments from future changes in interest rates that can adversely affect the fair value of such investments. Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. Duration uses the present value of cash flows, weighted for those cash flows as a percentage of the security's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as callable bonds and mortgage-backed securities. The interest rate risk of the Authority's portfolio is measured according to effective duration.

Financial statements for the Authority's fiscal year ended October 31, 2007 include corporate-designated, escrowed, and other post employment benefit funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund, project contingency reserves, restoration reserves, insurance reserves, arbitrage reserves and funds designated for the payment of medical benefits to the Authority's retirees.

Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds are largely comprised of security deposits held by the Authority for the residential buildings

Investment Income Record

Attached is 'Review of Investment Performance' report which includes a portfolio of all investments held by the Authority at 10/31/07 and details of investment earnings.

Fees

There were no fees, commissions or other charges paid to investment bankers, brokers, agents, or dealers for rendering investment related services to the Authority during the fiscal year and all investments are competitively bid. Consultant fees in the amounts of approximately $330,000 to Municipal Asset Management were incurred during the current fiscal year for professional money management advice to the Authority's Investment Committee.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY INVESTMENT GUIDELINES

The following statement will explain the investment procedures and strategies that pertain to the investment portfolio at the Hugh L. Carey Battery Park City Authority ("the Authority"). The report's purpose is to provide the Members with a comprehensive overview of the Authority's investment decision making process and overall results. The complete portfolio of the Authority's holdings as of October 31, 2007, shown above, indicates the type of investment and maturity held within each fund and also summarized in Footnote #3 of the audited October 31, 2007 financials.

Battery Park City Authority - FY2007: A Year in Review

<u>Summary of Bond Market and Authority Portfolio Strategy</u>

First Quarter: November 1, 2006 – January 31, 2007

Market Summary
The Treasury market traded within a range with no clear direction during the first quarter of FY2007, with both economic data and Federal Reserve speakers playing key roles in yield movements throughout the quarter. The market appeared prepared for a soft economic landing while the Federal Reserve continued to warn about inflation. All signs seemed to point to a Federal Open Market Committee ("FOMC") on hold for the foreseeable future. Both Federal Agency and corporate credit spreads remained firm as defaults reached historic lows.

Portfolio Strategy Recap
- The duration of the longer term portfolios extended due to exposure to mortgage backed securities and callable securities that were not redeemed. The latter resulted from the December 2006/January 2007 U.S. Treasury market sell-off that pushed the durations of some callable Federal Agencies from their expected call to final maturity. Although the duration of the longer term portfolios increased, the duration of the aggregate portfolio decreased slightly. Commercial paper rates in the 60 to 120 day area were attractive, averaging a spread of 7 to 10 basis points over comparable Federal Agency securities. The relative value of commercial paper and the Investment Committee's decision to shift allocation to this sector were factors in the overall shortening of the portfolios.

Second Quarter: February 1, 2007 – April 30, 2007

Market Summary
The direction of future FOMC interest rate policy remained unclear at the conclusion of the quarter. Although economic data was mixed during the quarter, a negative tone developed around the future economic outlook, in part because of a disappointing 1st quarter GDP. In addition, the housing market remained a drag on economic growth as both existing and new home sales continued to suffer. The job market, however, continued to be a bright spot, with the unemployment rate near the current economic cycle's lows. Inflation remained the likely key to future Federal Reserve monetary policy. The Investment Committee adopted a conservative approach to duration management moving forward while acknowledging that if interest rates were to move higher, it would represent an opportunity to add longer duration securities. A steeper yield curve became a distinct possibility.

Portfolio Strategy Recap
- The quarter was marked by uncharacteristic volatility in the U.S. Treasury markets. After trending upward throughout January, U.S. Treasury yields, fueled by mixed economic data and an over 400 point decline in the Dow Jones Industrial Average, fell to the low end of their trading range in February and March 2007. The Investment Committee largely viewed these depressed yield levels as a temporary condition and did not purchase longer securities during the rally, preferring instead to wait until yields moved back towards the higher end of the trading range.

- Rather than extending the portfolio durations into the Treasury market rally, the Investment Committee made the decision to let the durations of the longer-term portfolios drift shorter during the quarter. The rally in the Treasury market appeared to be based not entirely on fundamentals, with the flight to quality in response to the correction in the equities market at least partially responsible. The Investment Committee chose to continue to take advantage of short-term rates in the commercial paper, Federal Agency, and U.S. Treasury markets as opposed to purchasing longer-term securities. Commercial paper comprised 32% of the aggregate portfolio and was well-diversified among very highly-rated issues.

Third Quarter: May 1, 2007 – July 31, 2007

Market Summary

Growing problems in the credit markets replaced economic fundamentals in considering future interest rate movements and FOMC policy, although the Federal Reserve maintained that inflation remained its primary concern. The tightening of credit standards and growing delinquencies in the mortgage market, however, led many to believe the economy would slow further. Deteriorating credit conditions persuaded many to assume that the FOMC could be forced to act to ease liquidity concerns and/or to support economic growth. All other indicators suggested an economy on solid footing with moderate GDP growth, a strong labor market, and inflation a bit high but appearing to moderate. Housing remained the greatest risk to the economic outlook as both existing and new home sales continued to falter, and issues in the sub-prime mortgage market began to impact both the fixed income and equity markets on a broader scale.

Portfolio Strategy Recap

- Yields trended higher during the first half of the quarter as economic growth appeared to be firm. With the view that long-term yields had become attractive, and Treasury-Agency spreads offered value, the Investment Committee added Federal Agency securities in the longer-term portfolios as investments matured. Purchases were made primarily in the 2 to 3 year area out of concern for the potential of yield curve steepening.

- As the quarter progressed, however, problems in the sub-prime mortgage market spilled over to the general credit markets, pushing spreads in all credit sectors wider as investors looked to the safety of the Treasury market. Two-year Treasury-Agency spreads began the quarter at 23 basis points and ended the quarter at 40 basis points, reflecting the growing concern in the sub-prime market.

- The Authority's allocation to commercial paper was reduced quarter-over-quarter from 32% of the portfolio to 26%. Further, holdings of commercial paper issuers with the potential for significant exposure to the sub-prime market were eliminated as the positions matured.

Fourth Quarter: August 1, 2007 – October 31, 2007

Market Summary

Credit developments emerged as the key driver in the U.S. Treasury market, credit spreads, and FOMC monetary policy. On balance, economic data was weak, with housing continuing to be a drag on the economy. In addition to sub-prime foreclosures, evidence showed spreading delinquencies to other sectors, including home equity loans. Increasing delinquencies and foreclosures sparked write-downs of assets at major financial institutions as well as the downgrades of securities backed by mortgage assets. Although the labor market appeared to be holding up, increasing headwinds in financial service sector layoffs and continued construction declines will make job growth difficult. The unemployment rate was expected to begin to tick higher as firms slow hiring. Some economists put the chance of a recession above 50%. Despite a majority of negative economic releases and the fact that the FOMC cut rates by 75 basis points during the quarter, the Federal Reserve indicated reluctance to embrace the market's view that more rate cuts were needed.

Portfolio Strategy Recap

- The Investment Committee continued to further restrict the Authority's credit exposure. The Authority's aggregate exposure to highly-rated commercial paper was reduced to 19% by quarter-end, down from 25% as of July 31st. In addition, the Investment Committee elected not to add additional exposure to companies – including broker-dealers and some banking institutions – implicated in the sub-prime fallout. The Authority had no exposure to securities directly backed by sub-prime mortgages, asset-backed commercial paper, or SIV's (Structured investment Vehicles).

- Federal Agency spreads finished the quarter wider. Although the spreads between U.S. Treasury and Federal Agency securities approached their widest margin ever, the Investment Committee elected not to add additional exposure beyond one year as additional bad news related to the mortgage sector could adversely affect spreads moving forward.

Economic Highlights

- **Housing market woes** continued throughout FY2007, with the negative effects of the slowdown, more specifically the **issues in the mortgage finance sector**, spilling into the broader financial markets.
    - Beginning in mid-2007, **increased sub-prime delinquency rates** (coupled with continued weak housing market data) led to a **credit and liquidity crisis** that pushed U.S. Treasury yields significantly lower
        - Yields on structured investment products such as Asset Backed Commercial Paper ("ABCP"), Collateralized Debt Obligations ("CDOs"), and Structured Investment Vehicles ("SIVs") widened drastically as many investors simply stopped purchasing the paper issued by these conduits
        - Even spreads on AAA-rated Federal Agency securities and high-grade corporate debt widened as investors re-evaluated risk premiums and began demanding higher yields for taking on any type of credit risk
        - Tighter credit also led to a sharp correction in the equity markets as investors discounted liquidity and demanded increased expected returns for taking on risk.
        - Many large, "brand-name" banks were forced to write off billions of dollars as the value of the securities linked to sub-prime mortgages were revalued down.

- Although the FOMC perceived the risk of faltering economic growth to be greater than **inflation concerns** in the 2nd half of 2007, price pressures did not dissipate.
    - As of 10/31/07, core Consumer Price Index was up 2.2% year-over-year
    - Oil prices, which had fallen to their lowest levels in over one year in January 2007, were approaching $90 per gallon by the end of FY2007

- While **GDP** grew at an average rate of 3.1% (annualized) over the first 3 quarters of CY2007, the tighter lending standards and capital conservation efforts by major banks that are resulting from issues in the housing market are expected to be a drag on economic growth in the year to come

Portfolio Performance Update

The portfolio performance depicted below covers the time period from January 31, 2006 through October 31, 2007. Despite a challenging market environment, all of the Authority's portfolios performed well relative to their respective benchmarks.

Battery Park City Authority Total Return Summary			
Investment Strategy	**Fiscal Year 2007**	**Since Inception**	**Annualized Since Inception**
Longer Term Investment Strategy	**5.89%**	**10.00%**	**5.61%**
Benchmark: Merrill Lynch 1-10 Year US Treasury Note Index	6.13%	9.64%	5.41%
Intermediate Term Investment Strategy	**5.31%**	**9.10%**	**5.11%**
Benchmark: Merrill Lynch 1-Year US Treasury Note Index	5.40%	8.94%	5.02%
Short Term Investment Strategy	**5.28%**	**9.14%**	**5.13%**
Benchmark: Merrill Lynch 3 Month US Treasury Bill Index	5.13%	8.94%	5.02%

Notes:

1. Performance on trade date basis, gross-of-fees in accordance with the CFA Institute's Global Investment Performance Standards
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Duration is the change in the value of a security that will result from a 1% change in interest rates, stated in years.
4. Periodic performance numbers are presented both as the periodic return and on an annualized basis. The annualized return assumes the periodic return is compounded at the same rate and is presented for reference only. The actual annual return will be the result of chaining the most recent four quarterly returns.
5. "Fiscal Year 2007" represents the Authority's fiscal year, November 1, 2006 to October 31, 2007.
6. Since inception performance is calculated from January 31, 2006 to October 31, 2007.

Investment Strategies

The Authority's Investment Committee meets quarterly to develop a strategy for the investment of the Authority's funds. The Committee includes the CEO, the Treasurer, the Controller, the Director of Internal Audit, the General Counsel of the Authority and a Member. The Committee engages a money management consultant with a demonstrated expertise in fixed-income portfolio management for direct input and advice.

The Committee's objective in making investments on behalf of the Authority is to maximize the return while minimizing the risk and complying with:

- the Public Authorities Law limits on Authority investments
- approved Authority investment policies
- New York State Comptroller's Guidelines for Investments
- requirements and conditions in the various bond resolutions, and
  the Authority's cash flow requirements, as well as, other agreements of the Authority.

The duration of the Authority's investments are limited by restrictions in the bond resolutions and the Authority's cash flow needs. All lease and mortgage revenues funded for debt service requirements under the various resolutions must be invested within short six to twelve month duration in order to have funds liquid and available to pay the semi-annual debt service coupons. Other reserve funds required to be held under the various resolutions allow more flexibility, usually 5 years in duration.

Other funds held by the Authority which are unrestricted by bond resolutions are invested with consideration of the Authority's cash flow needs such as the weekly operating and capital expenditure requirements or the scheduled remittance of excess revenues to New York City.

Even with the constraints of the Authority's funding obligations, there is room for maximizing the investment rate of return. Where the Authority has relative freedom to choose the maturity, the Authority's decision-making can have a positive impact on our rate of return. The investment process and strategy employed by the Committee includes the following:

- **Market Information**

  The Senior Vice President, Finance maintains contact with traders and salespeople at major brokerage firms as well as with their economists to understand where the economy is headed and its impact on the credit markets. Through person-to-person contact and through studying the analyses of major investment firms such as Bear Stearns, Merrill Lynch, Smith Barney, and Morgan Stanley, the Senior Vice President is aware of market conditions and the underlying risks. In addition, Bloomberg Information System ("Bloomberg") which provides economic and historical data that relate to fixed-income investing is available to management. All of this information provides Authority management with a solid background for making knowledgeable investment decisions.

- **Choice of Investment Vehicles**

  When the Authority knows that specific funds must be available for debt service or for other payments on a specific date, they select interim investments with maturity date(s) that satisfy the funding needs. The first issue addressed is whether the bond resolution pertaining to the funds prohibits any investment type permitted by our Guidelines. Thereafter, the Authority decides whether to use Repurchase Agreements, Commercial Paper, Treasury Bills, Notes, or Bonds or an Agency investment as permitted under guidelines. Our process of requiring and testing competitive bids allows us to obtain the lowest prevailing market price

- **Choice of Maturity**

  An important part of the analysis is analyzing the nature of the yield curve to evaluate the reward in yield that exists for longer-term investing. The yield curve also reveals much about the expectations of the marketplace. Generally, if the yield curve is flat it is an indication that short-term rates are expected to fall soon. If the curve is very steep, it shows that either short-term rates are going to rise or that long-term yield are going to fall.

  Another factor to analyze is the impact of supply and demand in the marketplace. If, for example, the Treasury Department is expected to issue large amounts of bonds in the near future, it raises interest rates. One much scrutinized indicator is how well an auction did. When a substantial portion of an auction is purchased by Wall Street firms and they continue to hold it in inventory, it usually presages a sharp drop in price. In the sum total, if rates are expected to drop, the Authority may seek to extend maturities a bit to profit from falling rates. These decisions are made within the confines of the Investment Committee after assimilating the relevant information and hearing from the consultants and each Member on his or her particular expertise.

Investments – Security and Results

Outlined below are the salient points regarding the return on investments and the security of the investments.

Substantially all monies are promptly deposited upon receipt and invested and reinvested on maturity by the Authority, leaving relatively small dollar amounts (generally less than $4,000) in any account uninvested. Investments are generally made through the Authority's trustee or investment advisor who usually contact at least three dealers to obtain the highest rate of return for that investment.

The risk of loss of public funds held by the Authority is minimized by the investment restrictions and policies of the Authority. The Authority's investments in securities backed by the full faith and credit of the U.S. Government or municipal issuances of a credit quality no lower than 'A' grade are held by the Authority's financial institutions in the Authority's name. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks. Funds are generally held to maturity by a Trustee in the name of the Authority. Investments are routinely subjected to audits by New York State Auditors, the Authority's internal auditor and our outside public accountants.

In addition, the Authority's complete holdings report is updated daily and available online and details the security type, purchase and maturity dates, and the rate of return and yield of all holdings.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

INVESTMENT POLICIES AND PROCEDURES AS OF OCTOBER 31, 2007

The investment of all Hugh L. Carey Battery Park City Authority funds is limited by the law creating the Authority to "obligations of the State or of the United States of America or obligations the principal of and interest on which are guaranteed by the State or the United States of America" or any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to section ninety-eight of the State finance law. On October 21, 2003, the Act was amended regarding investments to allow any monies of the Authority, including the proceeds of bonds or notes, not required for immediate use, at the discretion of the Authority to be invested in obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law. In addition, limitations are imposed under 2003 bond resolutions, as follows:

2003 General Bond Resolution.

To the extent permitted or authorized by the Act, ("Act" shall mean the Battery Park City Authority Act, Title 12 of Article 8 of the Public Authorities Law [constituting Chapter 43-a of the Consolidated Laws of the State of New York] as added by Chapter 343 of the Laws of 1968, as amended) in lieu of the investment of monies in Investment Obligations as authorized in this Section, the Trustee shall, upon direction of the Authority confirmed in writing by an Authorized Officer, deposit monies held by it hereunder in interest-bearing time deposits, or interest-bearing notes, make repurchase agreements, reverse repurchase agreements or investment agreements or make other similar banking arrangements or make such other investment arrangements involving Investment Obligations or other obligations which permit the Authority to make the certification required in clause (i) below, with the financial institution acting as Trustee or with any other bank, trust company, national banking association or with any other bank, trust company, national banking association or Bank Holding Company in the United States, or with any surety or insurance company, or any other public or private corporation or make repurchase or reverse repurchase agreements involving Investment Obligations, with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and having capital aggregating at least fifty million dollars ($50,000,000); provided that upon the making of such deposit, agreement or arrangement the Authority shall certify in writing to the Trustee (i) that each such interest-bearing time deposit, interest bearing-note, repurchase agreement, reverse repurchase agreement, investment agreement or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations shall permit the full principal amount of the monies so placed together with the investment income agreed to be paid to be available, without penalty, for use, as provided in paragraph (1) above, at the times provided with respect to the investment or reinvestment of such monies and (ii) that (x) the entity with which such interest-bearing time deposit, interest-bearing note, repurchase agreement, reverse repurchase or investment agreement, or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations is made must be an entity certain of whose unsecured or uncollateralized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category to which the Bonds are assigned by each of the Rating Agencies at the time of the making of such investment or, to the extent applicable, if such entity is the lead bank of a Bank Holding Company, such Bank Holding Company's unsecured or uncollateralized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category which the Bonds are assigned by each of the Rating Agencies or (y) to the extent approved by each of the Rating Agencies, the performance of the entity with which such interest-bearing time deposit, or interest bearing notes, repurchase agreement, reverse repurchase agreement or investment agreement, or other similar banking arrangement or other investment arrangement involving Investment Obligations or other obligations is made must be guaranteed by an entity referred to in (x) above or (z) such interest-bearing time deposit, interest-bearing note, repurchase agreement, reverse repurchase agreement, or other investment agreement, or other similar banking arrangement or investment arrangement is secured by contracts, arrangements or surety bonds with or from an entity certain of whose unsecured or uncollateralized long-term debt obligations are assigned to a rating category which is equal to or higher than the rating category which the Bonds are assigned by each of the Rating Agencies at the time of the making of such investment. In addition, the applicable short-term (rather than long-term) rating category of an entity described above may be utilized in satisfying the requirements of this Section if an Authorized Officer certifies to the Trustee in connection with an investment, as to which certificate the Trustee may conclusively rely in making such investment, that (1) the use of such short-term rating category has been approved by each of the Rating Agencies and such short-term rating category is at least equivalent to the rating category which the Bonds are assigned by each of the Rating Agencies, (2) any such investment made with such entity shall be made in accordance with the terms and conditions, including length thereof, specified in the approval of the Rating Agencies (which may, to the extent applicable, mean that there is with respect to such entity a long-term rating which is equal to or higher than the rating category which the Bonds are assigned by such Rating Agency at the time of the making of such investment) and (3) the investment made with such entity would not cause, either directly or indirectly, any Rating Agency to lower the rating category which the Bonds are assigned immediately prior to such proposed investment. The Authority shall require the valuation of the obligations (which valuations may be performed by the Trustee), if any, securing such interest-bearing deposits, repurchase or reverse repurchase agreement or other similar banking arrangement not less than once each week. For the purposes of this paragraph (5), the term "Bank Holding Company" shall mean a corporation that is subject to registration with the Board of Governors of the Federal Reserve System pursuant to the requirements of the Bank Holding Company Act of 1956, as amended.

Investment Policy

Subject to the foregoing restrictions, the Authority’s investment policies are as follows:

Funds held by banks as Trustee or Depository under bond resolutions will be invested in accordance with the terms of the resolutions as outlined above.

All other funds will be invested in such a manner as to have funds available to meet projected expenditure requirements. It shall be the policy of the Authority to hold all investments until maturity. No securities will be purchased on margin. The type of investments are limited to those allowed by the Act, as amended (10/21/03):

Any moneys of the authority, including the proceeds of bonds or notes, not required for immediate use may, at the discretion of the authority be invested in obligations of the state or of the United States of

America or obligations the principal of and interest on which are guaranteed by the state or the United States of America, or in any other obligations in which the comptroller of the State of New York is authorized to invest pursuant to section ninety-eight of the state finance law (as stated below):

§ 98. Investment of State Funds (State Finance Law)

The Comptroller shall invest and keep invested all moneys belonging to any and all funds which the comptroller now is or hereafter shall be authorized to invest, in any of the following securities:

1. Bonds and notes of the United States.

2. Bonds and notes of this state.

2-a. General obligation bonds and notes of any state other than this state, provided that such bonds and notes receive the highest rating of at least one independent rating agency designated by the comptroller.

3. Obligations for the payment of which the faith and credit of the United States or of this state are pledged.

3-a. Notes, bonds, debentures, mortgages and other evidences of indebtedness of the United States Postal Service; the federal national mortgage association; federal home loan mortgage corporation; student loan marketing association; federal farm credit system or any other United States government sponsored agency, provided that at the time of the investment such agency or its obligations are rated and the agency receives, or its obligations receive, the highest rating of all independent rating agencies that rate such agency or its obligations, provided, however, that no more than two hundred fifty million dollars may be invested in the obligations of any one agency.

4. Judgments or awards of the court of claims of this state.

5. Stocks, bonds, or notes of any county, town, city, village, fire district or school district of this state issued pursuant to law.

6. Mortgage bonds or any obligations for the payment of money, no matter how designated, secured by another instrument representing a lien on specific real property or a leasehold thereof, heretofore or hereafter and at the time of the assignment thereof to the comptroller insured by the federal housing administrator or any of his successors in office and guaranteed by the United States under the provisions of the national housing act, as amended or supplemented. Any such mortgage bonds or obligations as aforesaid in which the comptroller has invested or shall have invested pursuant to this subdivision shall be serviced by the comptroller or in his discretion, by mortgages, as such are defined by the national housing act, as amended or supplemented, duly appointed by him and subject to the inspection and supervision of some governmental agency. The comptroller may receive and hold such debentures and certificates or other obligations as are pursuant to law.

11. Bonds or notes of the authorities or commissions set forth below when issued pursuant to law:

a. Port of New York Authority.
b. Niagara Frontier Authority.
c. Triborough bridge and tunnel authority.
d. Thousand Islands Bridge Authority.
e. New York State Bridge Authority.
f. New York City Tunnel Authority.
g. Lake Champlain Bridge Commission.
h. Lower Hudson Regional Market Authority.
i. Albany Regional Market Authority.
[*j. Repealed.*]
k. American Museum of Natural History Planetarium Authority.
l. Industrial Exhibit Authority.
m. Buffalo Sewer Authority.
n. Whiteface Mountain Authority.
o. Pelham-Portchester Parkway Authority.
p. Jones Beach State Parkway Authority.
q. Bethpage Park Authority.
r. Dormitory Authority.
s. Central New York Regional Market Authority.
t. Erie County Water Authority.
u. Suffolk County Water Authority.
v. New York State Thruway Authority.
w. Genesee Valley Regional Market Authority.
x. Onondaga county water authority.
y. Power Authority of the state of New York.
z. Ogdensburg Bridge and Port Authority.
aa. [See, also, par. aa below] East Hudson Parkway Authority.
aa. [See, also, par. aa above] Niagara Frontier Port Authority.
bb. Northwestern New York Water Authority.
cc. Metropolitan Commuter Transportation Authority.
dd. [See, also, par. dd below] Niagara Frontier Transportation Authority.
dd. [See, also, par. dd above] New York State Pure Waters Authority.
ee. Rochester-Genesee Regional Transportation Authority.
ff. [See, also, par. ff below] Capital District Transportation Authority.
ff. [See, also, par. ff above] Central New York Regional Transportation Authority.

12. Obligations of the International Bank for Reconstruction and Development duly issued pursuant to law.

13. Obligations of the inter-American development bank duly issued pursuant to law.

13-a. Obligations of the Asian Development Bank duly issued pursuant to law.

13-b. Obligations of the African Development Bank duly issued pursuant to law.

13-c. Obligations of the International Finance Corporation duly issued pursuant to law.

14. [See, also, subd. 14 below] Collateral trust notes issued by a trust company, all of the capital stock of which is owned by not less than twenty savings banks of the state of New York.

14. [See, also, subd. 14 above] Bonds and notes issued for any of the corporate purposes of the New York state housing finance agency.

15. Bonds and notes issued for any of the corporate purposes of the New York state medical care facilities finance agency.

16. Bonds and notes issued for any of the corporate purposes of the New York state project finance agency.

17. Bonds and notes issued for any of the corporate purposes of the municipal assistance corporation for New York City.

18. Obligations of any corporation organized under the laws of any state in the United States maturing within two hundred seventy days provided that such obligations receive the highest rating of two independent rating services designated by the comptroller and that the issuer of such obligations has maintained such ratings on similar obligations during the preceding six months provided, however, that the issuer of such obligations need not have received such rating during the prior six month period if such issuer has received the highest rating of two independent rating services designated by the state comptroller and is the successor or wholly owned subsidiary of an issuer that has maintained such ratings on similar obligations during the preceding six month period or if the issuer is the product of a merger of two or more issuers, one of which has maintained such ratings on similar obligations during the preceding six month period, provided, however, that no more than two hundred fifty million dollars may be invested in such obligations of any one corporation.

19. Bankers' acceptances maturing within ninety days which are eligible for purchase in the open market by federal reserve banks and which have been accepted by a bank or trust company, which is organized under the laws of the United States or of any state thereof and which is a member of the federal reserve system and whose short-term obligations meet the criteria outlined in subdivision eighteen of this section. Provided, however, that no more than two hundred fifty million dollars may be invested in such bankers' acceptance of any

one bank or trust company.

The comptroller, whenever he deems it for the best interest of any of such funds, may dispose of any of the securities therein or investments therefore, in making other investments authorized by law, and he may exchange any such securities for those held in any other of such funds, and the comptroller may take such action as may be necessary to obtain the benefits of the insurance provided for in the national housing act, and may draw his warrant upon the treasurer for the amount required for such investments and exchanges.

Notwithstanding the provisions of any other general or special law, the comptroller shall not invest the moneys of any fund in any security or securities except as above described, provided, however, that: (a) the comptroller may, in order to maximize the rate of return on investments, invest the moneys belonging to the New York interest on lawyer account fund in notes, securities and deposits of banking institutions which accept IOLA accounts, and (b) the provisions of this section shall not limit the types of investments that may be made with moneys belonging to the volunteer ambulance service award fund established by section two hundred nineteen-h of the general municipal law.

Procedure

Investment decisions and instructions shall be formulated by the Authority's Investment Committee and initiated by the Treasurer. In the absence of the Treasurer, the Assistant Treasurer, and/or the President and Chief Executive Officer shall perform this function. In the absence of the President and Chief Executive Officer, the General Counsel shall perform this function.

Valuation of underlined securities for repurchase agreements is to be made at time of agreement. Principal amount of agreement plus interest to be paid must be covered by the value of securities pledged.

All securities and Certificates of Deposits purchased shall be delivered to the appropriate bank trustee, depository or custodian prior to our payment. Each bank shall transmit to the Authority appropriate advice of each transaction and a monthly statement of activity together with a listing of securities held.

The Authority shall maintain adequate records of securities purchased and held which will show for each security: (1) full description; (2) date and description of activity (Purchase, Sale, Maturity, Income Collected, etc.); (3) Cost, Par Value and Carrying Values; (4) Accrued interest paid on purchase, and (5) Income collected. These records will be compared to the monthly bank statements of activity and holdings. All differences will be reconciled and corrected on a timely basis.

“Supplementary Procedures” which outline the records and documentation used in processing an investment from the time of its initiation to the recording and reconciliation on HLCBPCA Accounting records are outlined below.

Investment Committee

An Investment Committee meets regularly to develop strategy for the investment of Authority funds and to review and make changes to current investment policies and procedures. The Committee includes the CEO, the Treasurer, the Controller, General Counsel of the Authority, and a Member of the Board, (Internal Audit observation only). The Committee engages money management consultants with a demonstrated expertise in fixed income portfolio management for consultation and advice on a regular basis.

Reports

A listing of all investment holdings shall be prepared periodically for presentation to the Members and officers mentioned in the previous paragraph. This report shall show description of security, par value, cost, carrying value and market value. Reports summarizing investment activity are available to others from the Treasurer or the Controller for review and discussion.

Audits

Review of compliance with investment policy and related procedures should be part of the annual audit by the Authority's independent auditors. This will include confirmation from each bank verifying securities held for the Authority.

Investment practices and controls will be subject to review and testing by internal auditors on a surprise basis at the discretion of the VP of Internal Audit, President and CEO and/or the Board.

Supplementary Procedures

The following procedures are supplemental to the current Authority Investment Policy and Procedure Statement.

These procedures will describe in more detail the methods employed by the investment officers (Treasurer and Assistant Treasurer) to formulate and initiate investment transactions. In addition, the procedures will include the records and documentation used in processing an investment from the time of its initiation to the recording and reconciliation on the Authority's accounting records.

The enumeration of these standard operating procedures will help further strengthen a strong system of internal controls. Procedures will be made available to Senior Management and individuals who may be authorized to initiate investment transactions in the Treasurer's absence.

The procedures will be subjected to regular audits by internal and external auditors as required. Procedures are to be revised and updated on an annual basis and referenced in the Investment Policy and Procedure Statement, approved by the Members, in accordance with Section 2925(6) of the Public Authorities Law.

1. The Treasurer or Assistant Treasurer maintains a schedule of all current investments and updates schedule on a timely (daily) basis as securities mature and/or new investments are initiated. A Calendar of investment maturities is maintained and updated as chronological reminder (tickler file) or maturities.

2. All investments are initiated via:

a. specific written investment instruction sent to the Trustee or

b. verbal investment instructions followed up by written confirmation

3. The Treasurer will initiate the investments by reviewing the investment schedule and calendar on a daily basis to determine investments to be made over the following week based on Investment Committee strategies agreed to by the Investment Committee and weekly phone meetings working group. All investments are available online real time (next day) basis.

   The Treasurer considers many factors in forming investment decisions, such as:

   a. existing bond resolution requirements and conditions
   b. other existing agreements affecting investments/cash flow (i.e. Settlement Agreement; Agreement and Consent dated September 22, 1988, Agreement for Certain Payments, Lease Agreements etc.)
   c. HLC BPCA Cash Flow Requirements and Internal Investment Policies
   d. Current and future market conditions (i.e. interest rates)
   e. New York State Comptroller's Guidelines (attached) and
   f. Published market surveys, consultant reports, etc., relating to securities available, interest rates and investment strategies.

4. Copies of the bank confirmation letters sent to the Trustee Bank are filed in the Treasurer's chronological file and in a monthly folder for that particular Bank account.

5. All investments are available to the President and others for review and discussed at Investment Committee Meetings. A copy of the Investment Instructions Memo is retained in the Treasurer's file and a copy is maintained in the bank reconciliation files.

6. Documentation for securities purchased including the information as to brokers solicited for quotes shall be retained and filed by the Authority, the Trustee, or Investment Advisor.

7. Reconciliation of monthly Trustee statements are performed. This includes reconciliation of investment transactions, investment income, and portfolio holdings. Corresponding journal entries are subsequently posted to the Authority's general ledger. The Controller or Senior Accounting Manager initials and dates these reconciliations when reviewed to signify timely approval and completion.

8. Quarterly investment schedules are reviewed by the Investment Committee and made available to the Board. Investment schedules are audited by the Authority's public accountants at year end. The auditors request and receive confirmation of our

cash and security holdings as of fiscal year end. In addition, the Authority's Internal Audit department periodically audits investments.

Investment Committee's Objectives

The Investment Committee's objectives are to:

1. Attain the maximum allowable earnings up to the "arbitrage allowance" in bond funds, using investments allowed under the Bond Resolution;
2. Reduce market risk as much as practicable;
3. Produce upfront cash for infrastructure fund purposes to the extent that it is available;
4. Fully comply with investment guidelines, strategy and bond resolution requirements;
5. Obtain the highest value possible for investment contracts.

Maturity And Valuation Requirements For Reserve Funds

Applicable Document	Valuation Method	Max. Maturity
2003 General Bond Resolution 2003 Series A,B,C Resolutions	Lower of par or cost plus accrued interest	None