

DRAFT
FOR CONSIDERATION

February 24, 2009

To: The Members

From: James Cavanaugh

Subject: FYE 10/31/08 Investment Report and Investment Policies and Procedures

Request For: Approval of FYE 10/31/08 Investment Report and of Investment Guidelines

Background:

Section 2925 (6) of the Public Authorities Law requires each public authority to annually prepare and approve an investment report which describes the Authority's investment guidelines and any amendments to the guidelines, investment policies and procedures, the results of the annual independent audit, the Authority's investment income and a list of the fees associated with those investments, as well as commissions or other charges paid to each investment banker, broker, agent, dealer and advisor. The report for this fiscal year is supplemented by a "Review of Investment Performance" to provide the Members with a comprehensive and detailed report of the Authority's investment portfolio, investment strategy and earnings performance for the fiscal year and a market commentary.

The attached report is being presented to you in accordance with this requirement. After you approve the report, it will be submitted or posted to:

1. NYS Division of the Budget,
2. NYS Department of Audit and Control,
3. NYS Comptroller;
4. NYS Public Authorities Information Reporting System (PARIS)
5. The BPCA website
6. The Chairmen and ranking Minority Members of the
 - a. NYS Senate Finance Committee;
 - b. NYS Assembly Ways and Means Committee

The Authority's Investment Committee is comprised of senior management who, in consultation with a professional investment and advisory management firm, help formulate the Authority's investment strategy. In January 2002, at the request of the Members, it was determined that a Member should serve on the Committee, and Mr. David Cornstein currently represents the Members in that capacity.

In September, 2005 the Members authorized a contract with Public Financial Management (PFM) to serve as investment advisor to the Investment Committee, replacing Municipal Asset Management. Senior management has worked with the new investment advisor, PFM, to model

a portfolio consistent with the investment objectives set forth by the Committee. The results of these efforts are detailed in the attached report outlining market conditions and the strategy employed by fiscal quarter, as well as, an update on the portfolio's performance. Most notably, holdings of commercial paper of issuers with potentially significant exposure to the sub-prime market were eliminated early and, as a result, the Authority had no exposure to securities directly backed by sub-prime mortgages, asset backed commercial paper, or SIVs (Structured Investment Vehicles). In addition, the interest earnings of our portfolio exceeded performance benchmark goals for the year.

Requested Action:

The Members are requested to approve the attached Investment Report and Investment Guidelines.

Recommendation:

Based on the foregoing, I recommend approval of the attached resolution.

Attachments:

- Resolution to Approve BPCA's FYE 10/31/08 Investment Report
- Investment Report and Investment Guidelines
- Office of the State Comptroller Investment Guidelines for Public Authorities
- Authority's "Review of Investment Performance" at October 31, 2008
- Public Accountant's Fiscal Year End 2008 Letter to the Members - Re: Compliance with Investment Guidelines (to be delivered at the Members' meeting)

**APPROVAL OF THE INVESTMENT REPORT FOR THE FISCAL YEAR ENDED
OCTOBER 31, 2008 AND INVESTMENT GUIDELINES**

BE IT RESOLVED, that the Investment Report of the Hugh L. Carey Battery Park City Authority (the Authority) for the fiscal year ended October 31, 2008 in the form presented to this meeting, be, and hereby is approved; and be it further

RESOLVED, that the Authority Investment Guidelines in the form presented to this meeting be, and hereby are, approved; and be it further

RESOLVED, that the Treasurer of the Authority be, and hereby is, directed to file said Investment Report (including the Guidelines) with the: (1) NYS Division of the Budget; (2) NYS Department of Audit and Control; the Chairman and ranking Minority Members of the (3) New York State Senate Finance Committee; and (4) New York State Assembly Ways and Means Committee, as required by Section 2925 of the Public Authorities Law, Public Authorities Accountability Act of 2005 and the New York State Comptroller's Regulation 2 NYCRR (Part 203); that the Secretary of the Authority be, and hereby is, directed to file said Investment Report (including the Guidelines) with the minutes of this meeting; and that Investment Report information be posted to the Authority's website and the NY State -Public Authorities Reporting System (PARIS); and be it further

RESOLVED, that any and all actions taken by any officer of the Authority in connection with the negotiation or preparation of such policies and procedures are hereby ratified, confirmed and approved.

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**HUGH L. CAREY BATTERY PARK CITY AUTHORITY
INVESTMENT REPORT FOR FISCAL YEAR
ENDED OCTOBER 31, 2008**

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 Organization 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 Organizations 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 U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than 'A-1' grade; investments in federal agency and mortgage backed securities have the highest credit rating of 'AAA' and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated 'AAA'. All other deposits or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

Total investments and deposits held by the Organization at October 31, 2008 and 2007 included within the balance sheet accounts: investments, corporate-designated, escrowed, and postemployment benefit funds, bond resolution funds, and residential lease required funds are as follows:

	2008			2007		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	\$ 31,736,868	35,883,316	5.52	\$ 43,700,486	46,427,766	4.29
Commercial paper	156,690,912	157,257,220	0.07	91,987,254	92,376,392	0.11
Federal agency securities	352,187,646	353,467,636	0.70	302,538,581	303,740,235	0.73
Federal agency mortgage-backed securities	38,981,557	38,182,427	3.52	44,975,563	44,175,293	2.87
Municipal bonds	3,280,000	3,280,000	0.02	4,930,000	4,930,000	0.02
Total investments	582,876,983	588,070,599	1.00	488,131,884	491,649,686	1.13
Cash and cash equivalents	16,334,920	16,335,433		4,799,109	4,799,109	
Total investments and deposits	\$ 599,211,903	604,406,032		\$ 492,930,993	496,448,795	

(a) Portfolio weighted average effective duration.

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

The Organization's permitted investments 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 (commercial paper), provided that such obligations receive the highest rating of two independent rating services which as of October 31, 2008 were A1/P1; and (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).

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 investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment'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 Organization's portfolio is measured according to effective duration.

Corporate-designated, escrowed, and OPEB funds represent 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 largely comprise security and escrow deposits held by the Authority for the residential buildings.

The Conservancy maintains its cash in Certificates of Deposits and bank deposits, which are guaranteed by the FDIC up to \$250,000 through December 31, 2009. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000. All cash balances are placed into overnight interest bearing accounts.

Investment Income Record

Attached is 'Review of Investment Performance' report which includes a portfolio of all investments held by the Authority at 10/31/08 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, 2008, shown above, indicates the type of investment and maturity held within each fund and also summarized in Footnote #3 of the audited October 31, 2008 financials.

BPCA FY 2008: A Year in Review (prepared by Investment Advisor, PFM)

Summary of Bond Market and Authority Portfolio Strategy

First Quarter: November 1, 2007 – January 31, 2008

Market Summary

The credit concerns that began to emerge in mid-2007 remained the primary focus of the U.S. Treasury market, credit markets, and Federal Reserve monetary policy throughout the first three months of Fiscal Year (“FY”) 2008. The significant and persistent widening in all credit sectors, brought on by increased writedowns by financial companies, growing numbers of delinquencies and defaults, and heightened uncertainty surrounding the credit ratings of the monoline insurers, remained the dominating market news. Almost every sector was affected, including Federal Agency, corporate, and municipal debt. In an effort to conserve capital, banks were forced to begin limiting loans and other uses of capital, thus significantly reducing the amount of available credit. Almost every economic indicator pointed towards an economic slowdown. The yield curve continued to steepen as the Federal Reserve’s focus remained to stimulate economic growth and Federal Open Market Committee (“FOMC”) officials continued to express their willingness to reduce short-term rates as needed.

Portfolio Strategy Recap

- The stresses that developed in the subprime mortgage and related markets in mid-2007 prompted the Investment Committee to reaffirm its commitment to the safety of principal. To wit, the Investment Committee continued to restrict the purchase of commercial paper to a small group of highly-rated companies with superior finances and consciously diversified holdings in the Federal Agency sector amongst issuers as well.
- The Investment Committee added approximately \$18 million of additional exposure in securities maturing beyond 2 years. Modest additions were made to the Federal Agency sector in longer-term portfolios to take advantage of spreads that had reached their widest point in several years. Most of these purchases were made prior to the significant decrease in yields in January.
- Durations were maintained close to target durations with careful consideration given to liquidity needs.

Second Quarter: February 1, 2008 – April 30, 2008

Market Summary

As the quarter ending April 30, 2008 closed, improvements in the credit markets – brought upon by decisive Federal Reserve actions – gave investors a boost of confidence. Surging energy, commodity, and food prices replaced the fear of financial meltdown as the primary concern in the fixed income markets. The rapid change in conditions led to volatile trading and significant movements in credit spreads. The FOMC cut the overnight lending rate to 2% on April 30th, making a total of 3.25% in cuts since this round of tightening began in September 2007. More significant Federal Reserve actions included the bailout of Bear Stearns and the provision of liquidity to the financial sector through innovative auction facilities. Despite this optimism, however, many underlying economic indicators remained weak and there remained much

uncertainty concerning the direction of the economy. Credit conditions remained very tight and rising energy prices threatened to slow the economy further.

Portfolio Strategy Recap

- The Investment Committee concentrated purchases in the five year and under maturity range, with a focus on the two-year sector. Concern over the potential for a steepening yield curve was a significant factor in yield curve positioning. By focusing on maturities under five years, the Investment Committee was able to maintain durations near 100% of the benchmarks throughout the quarter while managing the risks associated with the potential return of a steeper-sloped term structure.
- Because of significant uncertainty surrounding the economic outlook, durations were maintained close to target benchmark durations with careful consideration given to liquidity needs.

Third Quarter: May 1, 2008 – July 31, 2008

Market Summary

Market conditions remained difficult during the quarter. The stresses in the credit markets showed little abatement and economic activity remained sluggish as inflation readings continued to trend higher. It remained unclear whether little to no economic growth, higher inflation, or persistent credit difficulties would be the market's primary concern at any given time. Continued volatility resulted as the markets reacted to headlines from the credit markets and economic releases. High quality corporate bonds and Federal Agency debt traded at record wide spreads, an indication that credit concerns continued to pervade the market. In an effort to assuage increasingly anxious investors, Congress passed the Housing and Economic Recovery Act of 2008 in late July. The legislation provided both debt relief to aid homeowners facing foreclosure as well as lifelines to housing giants Fannie Mae and Freddie Mac, which included an unlimited increase in the line of credit between the Treasury and the two GSEs as well as approval for the Treasury to make direct equity investments in the two agencies. Opportunities emerged, however, from which fixed income investors could capitalize as a steeper yield curve now compensated investors for assuming additional interest rate risk while wider spreads on commercial paper and Federal Agencies made those sectors attractive.

Portfolio Strategy Recap

- Although the Investment Committee continued selectively to take advantage of Federal Agency securities and commercial paper which would generate a higher stream of income moving forward, the continued widening of credit spreads eroded market value over the quarter and resulted in the underperformance of the longer-term portfolios relative to the Merrill Lynch 1-10 Year U.S. Treasury Note benchmark.
- The Investment Committee was able to reinvest the maturities in the short-term portfolios into higher-yielding Federal Agency securities and high-quality commercial paper, therefore mitigating the impact of capital depreciation and leading to outperformance relative to the Merrill Lynch 3-Month U.S. Treasury Bill benchmark.
- The Investment Committee maintained the view that the senior debt of the GSE's (Government Sponsored Enterprises) continued to represent a safe and attractive investment. The Authority continued to purchase and hold senior debt of the GSE's with confidence. It became clear that the Federal Government would provide the required support to the GSE's,

if and when needed. It was also evident that any potential support would be favorable to senior debt holders.

- Although widening federal agency spreads negatively affected total return when compared to benchmarks, wide absolute spread levels offered the potential for significant outperformance in the future.

Fourth Quarter: August 1, 2008 – October 31, 2008

Market Summary

Market sentiment throughout the quarter was driven by continued and unprecedented disruptions in the credit markets. In early September, Fannie Mae and Freddie Mac were placed in a conservatorship under the auspices of the U.S. Treasury and the recently established Federal Housing Finance Agency. Although stockholders of the two housing giants were effectively wiped out, the United States government reaffirmed its commitment to support the senior debt holders of Fannie Mae and Freddie Mac. Despite these efforts, poor economic data contributed to the dire mood as it became evident that economic growth was grinding to a halt. Retail sales and measurements of consumer confidence hit decade lows in October. Conditions in the job market continued to deteriorate, as evidenced by the increase in the unemployment rate and a string of negative non-farm payroll reports. The bleak economic news and frozen credit markets contributed to the worldwide stock sell-off throughout the quarter. Credit spreads in the corporate and agency sectors, meanwhile, reached historic wide levels. Only the U.S. Treasury market experienced significant outperformance as investors sought the safety and liquidity of the Treasury sector. In response to the violent global financial upheavals, the FOMC cut rates an additional 1% in October in an effort to soften the economic slowdown. The credit markets did improve somewhat at the end of October as the various government support programs put into place began to take effect. Short-term yields hit agonizingly low levels, however, with a relatively steep yield curve and wide credit spreads providing the only relief.

Portfolio Strategy Recap

- BPCA portfolios continued to benefit from high absolute performance since inception as yields continued to decline. Short-term portfolios, accounting for roughly 70% of the Authority's assets, continued to outperform their respective benchmarks since inception as well. Additional income produced by wide agency and commercial paper spreads had a major positive impact on short-term returns during the quarter.
- Because of spread widening in the agency sector, federal agency security price appreciation did not keep pace with U.S. Treasury security price appreciation. This was the primary contributor to the long-term portfolios' underperformance to their respective benchmark. Over time, however, the Investment Committee believes attractive agency spreads will prove to be a benefit for the long portfolios as spreads revert to historic norms.

Portfolio Performance Update

Despite a challenging market environment, all of the Authority's portfolios generated high absolute returns through the Fiscal Year ending October 31, 2008. Over 50% of the Authority's funds are managed according to the 'Short Term Investment Strategy' which outperformed its benchmark both during FY 2008 and on a since inception basis. The financial market unrest that emerged in early 2008 and accelerated into the fall, induced a flight to quality that pushed U.S. Treasury yields to historic lows. As fearful investors flocked to the safety of the U.S. Treasury market, U.S. Treasury benchmarks logged some of their best relative performance numbers ever as widening credit spreads negatively impacted the performance of the Federal Agency, mortgage-backed, and corporate sectors. Although the 'Longer Term Investment Strategy' had respectable absolute returns, the phenomenon described above led to its underperformance relative to its U.S. Treasury benchmark. This underperformance, however, is expected to reverse itself in the coming months as 1) spreads return to more normal levels and 2) the portfolios reap the benefits of the higher yielding Federal Agency, mortgage-backed, and commercial paper investments.

Battery Park City Authority Total Return Summary			
Investment Strategy	Fiscal Year 2008	Since Inception	Annualized Since Inception
Longer Term Investment Strategy	5.75%	16.32%	5.65%
<i>Benchmark: Merrill Lynch 1-10 Year US Treasury Note Index</i>	<i>8.11%</i>	<i>18.53%</i>	<i>6.38%</i>
Short Term Investment Strategy	3.02%	12.44%	4.36%
<i>Benchmark: Merrill Lynch 3 Month US Treasury Bill Index</i>	<i>2.72%</i>	<i>11.90%</i>	<i>4.17%</i>

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 returns 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 2008" represents the Authority's fiscal year, November 1, 2007 to October 31, 2008
6. Since inception performance is calculated from January 31, 2006 to October 31, 2008 with the following exception:
OPEB Portfolio (Longer Term Investment Strategy) since inception performance is calculated from January 31, 2008 to October 31, 2008
7. Beginning November 1, 2007, the Investment Committee made the decision to manage the Joint Purpose Fund according to the Short Term Investment Strategy. As such, no portfolios were managed according to the Intermediate Term Investment Strategy in FY 2008.

Throughout the financial crisis, the Investment Committee's primary concern remained the preservation of principal. Although the portfolios generated attractive returns, at no point did we sacrifice the safety or liquidity of the Authority's funds. Moving forward, the Investment Committee will continue to look for ways to add value to the Authority's portfolio in a prudent manner.

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, 2008

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.

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. Corporate funds which are not invested are collateralized or insured by FDIC and balances receive compensating interest at the 90 day T bill rate to mitigate banking fees. 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.

6. 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