FOR CONSIDERATION

February 23, 2010

To: The Members

From: James Cavanaugh

Subject: FYE 10/31/09 Investment Report and Investment Policies and Procedures

Request For: Approval of FYE 10/31/09 Investment Report and of Investment Guidelines

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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, 2009 the Members authorized a contract with Public Financial Management (PFM) to serve as investment advisor to the Investment Committee, extending their tenure as investment advisor after an extensive public bid process. 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.

<u>Requested Action:</u>

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

<u>Recommendation:</u>

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

<u>Attachments:</u>

- Resolution to Approve BPCA’s FYE 10/31/09 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, 2009
- Public Accountant's Fiscal Year End 2009 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, 2009 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, 2009 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, 2009

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 Organization'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 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 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, 2009 and 2008 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:

	2009			2008		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities						
Treasury Bills	$ 194,492,154	194,605,252	0.10	$ 530,729	530,734	0.13
Treasury Bonds	18,740,783	21,408,047	5.74	29,608,922	32,644,400	5.56
Treasury Strips	337,562	696,754	7.49	1,597,217	2,708,182	6.15
Total U.S. Treasury securities	213,570,499	216,710,053		31,736,868	35,883,316	
Commercial paper	—	—	—	156,690,912	157,257,220	0.07
Federal agency securities	378,003,749	382,200,384	0.64	352,187,646	353,467,636	0.70
Federal agency mortgage-backed securities	24,794,069	26,052,889	2.82	38,981,557	38,182,427	3.52
Municipal bonds	10,700,000	10,753,970	2.98	3,280,000	3,280,000	0.02
Total investments	627,068,317	635,717,296	0.78	582,876,983	588,070,599	1.00
Cash and cash equivalents	332,287	332,287		16,334,920	16,335,433	
Total investments and deposits	$ 627,400,604	636,049,583		$ 599,211,903	604,406,032	

(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, 2009 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).

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.

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.

Corporate-designated, escrowed, and OPEB funds represent funds designated by the Authority's board of directors, external parties or both, for specific purposes such as budget reserves, the Special Fund, project and operating 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's bank deposits are guaranteed by the FDIC up to $250,000 through December 31, 2013. 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 10/31/09 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, 2009, shown above, indicates the type of investment and maturity held within each fund and also summarized in Footnote #3 of the audited October 31, 2009 financials.

BPCA FY2009: A Year in Review

Summary of Bond Market and Authority Portfolio Strategy

First Quarter: November 1, 2008 – January 31, 2009

Market Summary

The extent of the economic slowdown of the U.S. and world economies became more widely understood during the first three months of Fiscal Year ("FY") 2009. Most measures of economic activity were at multi-decade lows; housing market indicators, consumer sentiment, and consumer spending had deteriorated significantly. Continued weakness in the labor markets put additional downward pressure on consumer spending and household wealth was further eroded by falling housing prices and severe declines in equity prices. The Federal Reserve revised its economic outlook lower and indicated that the zero interest rate policy would be in place for an extended period of time. Throughout the latter half of 2008 and into 2009, the Federal government began enacting a series of measures increasing government spending and involvement in the economy. For example, the FDIC Temporary Liquidity Guarantee Program ("TLGP") allowed large commercial banks to access the credit markets at reasonable rates. The TLGP and other programs increased liquidity substantially for the banking sector. In aggregate, the support measures reduced borrowing costs for most issuers, producing much lower yields for investors.

Portfolio Strategy Recap

- The Investment Committee maintained its focus on safety of principle, restricting the purchase of commercial paper to a small group of highly-rated companies that were beneficiaries of Federal Government support programs such as the TLGP.
- With short-term rates remaining close to zero, the Investment Committee managed liquidity carefully to ensure that returns were maximized.
- Although interest rates were near historic lows, there were some opportunities available for longer-term investments. The yield curve was relatively steep, which allowed the Authority to earn additional yield by extending duration only modestly. Federal Agency spreads were still above historic norms, and callable Federal Agency securities offered a substantial yield advantage to non-callable securities without adding excess amounts of duration.

Second Quarter: February 1, 2009 – April 30, 2009

Market Summary

Credit spreads narrowed in the corporate and Federal Agency markets as investors became more comfortable with adding back credit exposure to their portfolios. Although improvements in the credit markets were a welcome development, the economy still faced significant headwinds. Some economic indicators seemed to have stabilized while others – notably housing and employment – pointed to further economic declines. Although it was anticipated that short-term rates would remain extraordinarily low for the foreseeable future (the FOMC maintained that its zero interest rate policy would remain intact), there remained potential for a continued increase in longer-term rates. Investors became increasingly concerned about future Treasury supply, putting upward pressure on longer-term yields. In this context, it was prudent to resist the temptation to chase yields by investing too far out the yield curve as excessive interest rate risk could prove costly in future years.

Portfolio Strategy Recap

- Portfolios were positioned short of their respective benchmarks and new purchases were made with maturities shorter than 5 years.
- The Investment Committee continued to restrict the purchase of commercial paper to a small group of highly-rated companies benefiting from Federal Government support programs such as the FDIC TLGP, or whose unguaranteed short-term commercial paper had been approved for purchase after careful and ongoing review by the PFM Credit Committee.
- Because Federal Agency spreads tightened significantly in the quarter, while U.S. Treasury yields moved higher, the Investment Committee reallocated a portion of the portfolio into U.S. Treasury securities.

Third Quarter: May 1, 2009 – July 31, 2009

Market Summary

During the third quarter of FY 2009, the economic debate shifted from when would the economy reach bottom to how strong and sustainable would the recovery be. Economic activity was largely driven by government spending and increasing net exports; however, if the recovery was to be sustainable, it would likely require increased participation from the consumer. Although many economists increased their estimates of GDP growth in the second half of 2009, the Fed remained unlikely to increase rates so long as the unemployment rate continued to increase or remained at current levels. There were some signs of an improving labor market with both continuing claims and initial jobless claims improving, however, the unemployment rate remained stubbornly high. In addition, consumer spending was still weak and the savings rate continued to increase, both of which had negative implications for retail sales and other measures of consumer demand.

Portfolio Strategy Recap

- Investment Committee continued to restrict the purchase of commercial paper to securities issued under the FDIC Temporary Liquidity Guarantee Program (TLGP). As of the period ending July 31, 2009, the Authority held no commercial paper.
- The Investment Committee increased the Authority's exposure to the Treasury sector by slightly more than $100 million during the quarter. The reallocation of funds to the Treasury sector was a response to the tightening of credit spreads in all sectors, most significantly a dramatic tightening of spreads in the Federal Agency sector. The spread on a 2-year Federal Agency narrowed from 43 basis points at the beginning of the quarter to 15 basis points at the end of the quarter. Funds from maturing commercial paper positions were reinvested in the Treasury sector since TLGP commercial paper supply was very limited and Agency spreads when compared to Treasuries were very narrow.
- The Investment Committee maintained a relatively short duration position in the long-term portfolios given the potential for an economic recovery and the prospects for potentially higher interest rates.
- The steep yield curve made it attractive to extend maturities where liquidity constraints permitted. The rewards of investing further out the yield curve had to be balanced with the additional credit risk of longer maturities. The Investment Committee primarily focused new purchases in the 2-5 year maturity bucket.

Fourth Quarter: August 1, 2009 – October 31, 2009

Market Summary

Strong demand for short-term investments pushed short-term yields to near zero as the quarter ended. Limited supply in the Federal Agency and commercial paper markets left investors scrambling for investment alternatives over year-end. The prospects of slow growth rates and a Federal Reserve zero interest rate policy extending well into 2010 increased the demand for longer-term maturities as well. The two-year Treasury note, for example, traded at its lowest yield, 0.65%, in several decades. However, yields in the ten and thirty-year sector were well off of the lows from earlier in the year. Although investors found it attractive to extend out the yield curve to add additional yield, they were wary of taking on too much interest rate risk. There were many who thought that the Federal Reserve's current stance on monetary policy, the weakening dollar, and increased Treasury supply (all of which are closely related) would prove to be inflationary at some point in the future. This had led to the general steepening in the yield curve over the past year. Economic data released during the quarter did nothing to change the market's view that the Federal Reserve will leave the overnight lending rate near 0% for some time. Although there was some good news, the economy was still facing significant headwinds. The rate of job losses decreased, but the unemployment rate was at its highest level in several decades. Some Federal Reserve officials said that a decreasing unemployment rate was a pre-condition to tightening monetary policy. While it was clear that the economic situation stabilized, it was equally clear that growth would be subdued for the foreseeable future.

Portfolio Strategy Recap

- The Investment Committee continued to restrict the purchase of commercial paper to securities issued under the FDIC TLGP. In the previous quarter, TLGP commercial paper issues had very unattractive yields relative to Federal Agencies. As of the quarter ending October 31, 2009, the Authority held no commercial paper.
- Short-term portfolios were managed with a strong emphasis on liquidity. Care was taken to ensure that funds were available when needed and to not expose the Authority to the risk of forced sales to raise needed liquidity. Extreme care was also taken to ensure that all portfolios were positioned appropriately for fiscal year-end.
- The allocation to the Treasury sector increased quarter-over-quarter with the change being most pronounced in the short-term portfolios. Credit spreads, or the difference in yield, between Treasury and Federal Agency securities declined to as little as 1 basis point (0.01%) in some instances. Given the unmatched liquidity and safety of the Treasury sector, the Investment Committee preferred to hold Treasury securities. The lower supply of Federal Agency securities also made it difficult at times to make purchases in the Federal Agency sector to match specific, required maturity dates.
- The duration of the portfolios shortened relative to the benchmarks. The Investment Committee's defensive stance on duration helped protect the market value of the portfolios as the yield curve steepened throughout 2009.
- The Investment Committee added additional municipal exposure to the Authority's portfolios during the quarter. These purchases were made primarily in the longer-term portfolios. Taxable General Obligation bonds of the City of New York were purchased with 2011 and 2013 maturities. The securities offered a considerable yield advantage versus both Treasury and Federal Agency securities.

<u>Portfolio Performance Update</u>

Despite a challenging market environment – one in which short-term rates hovered around zero and longer-term rose dramatically, leading to a marked steepening of the yield curve – all of the Authority's portfolios generated positive absolute returns over the Fiscal Year ending October 31, 2009.

Over half of the Authority's funds are managed according to the 'Short Term Investment Strategy' which outperformed its benchmark during the FY 2009 and on a since inception basis. The financial market unrest that emerged in early 2008 continued on into 2009 and although some signs of economic stability returned, the Federal Reserve kept short-term interest rates near zero. As such, although the Authority's portfolios outperformed the benchmark by 44 basis points (0.44%) during FY 2009, absolute returns were lower.

The 'Longer Term Investment Strategy' (excluding OPEB Account), however, performed very well on both an absolute and relative basis, generating a 9.00% total return for FY 2009, nearly 400 basis points (4.0%) over the benchmark. The OPEB Account, meanwhile, also faired very well, generating a 9.10% total return for the year-ending October 31, 2009.

Battery Park City Authority
Total Return Summary

Investment Strategy	Fiscal Year 2009	Since Inception	Annualized Since Inception
Longer Term Investment Strategy (ex. OPEB Account)	**9.00%**	**26.75%**	**6.52%**
Benchmark: Merrill Lynch 1-10 Year US Treasury Note Index	*5.09%*	*24.56%*	*6.03%*
Longer Term Investment Strategy (OPEB Account Only)	**9.10%**	**10.24%**	**5.73%**
Benchmark: Merrill Lynch 1-10 Year US Treasury Note Index	*5.09%*	*7.96%*	*4.47%*
Short Term Investment Strategy	**0.74%**	**13.34%**	**3.40%**
Benchmark: Merrill Lynch 3 Month US Treasury Bill Index	*0.30%*	*12.23%*	*3.12%*

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. 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.
4. "Fiscal Year 2009" represents the Authority's fiscal year, November 1, 2008 to October 31, 2009.
5. Since inception performance is calculated from January 31, 2006 to October 31, 2009 with the following exception:
   OPEB Portfolio (Longer Term Investment Strategy) since inception performance is calculated from January 31, 2008 to October 31, 2009

As mentioned last year, the longer-term portfolios reaped the benefits of credit spreads moving back to more normal levels as well as new Federal government programs, including the FDIC TLGP, which created new asset classes with both a yield advantage and the explicit backing of the Federal government. By adhering to a long-term, conservative investment approach and actively monitoring the markets for investment opportunities, the Investment Committee was able to produce solid performance in the Authority's portfolios without sacrificing its commitment to safety and liquidity.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

INVESTMENT POLICIES AND PROCEDURES AS OF OCTOBER 31, 2009

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.

20. No-load money market mutual funds registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, provided that such funds are limited to investments in obligations issued or guaranteed by the United States of America or in obligations of agencies or instrumentalities of the United States of America where the payment of principal and interest are guaranteed by the United States of America (including contracts for the sale and repurchase of any such obligations), and are rated in the highest rating category by at least one nationally recognized statistical rating organization, provided, however, that no more than two hundred fifty million dollars may be invested in such funds.

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