

FOR CONSIDERATION

August 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Investment Report

REQUEST FOR: Approval of Investment Guidelines and Investment Report and
Authorization to Take Related Actions

Background

Section 2925 of the Public Authorities Law (the "Law") requires annual approval by the Corporation of the "investment report" and "investment guidelines."

The New York State Urban Development Corporation d/b/a Empire State Development Corporation ("ESDC" or the "Corporation") Investment Report (the "Report") for Fiscal Year ended March 31, 2009 is attached hereto. It includes (1) ESDC Investment Guidelines ("Guidelines"); (2) Results of the Annual Independent Audit; (3) Investment Performances and Income Records; (4) Statement of Fees, Commissions and Related Service Charges; and (5) the Investment Portfolio as of March 31, 2009 by Fund and Instrument.

Investment Guidelines

The Guidelines were readopted with the Investment Report in September 2008. The Law requires that in addition to annual approval of the Report, the Guidelines must also be annually reviewed and approved by the Corporation. The Guidelines include, but are not limited to, a list of permitted Corporate investments, as well as procedures and provisions to secure the Corporation's financial interest in its investments. We are recommending some amendments to the Guidelines.

Most of the changes are minor and reflect bringing certain information up to date (e.g. a reference to certain funds that are no longer managed by ESDC) or are administrative in nature (e.g. certain positions within the Corporation that are no longer involved in investment management). There are also two items that relate to Article Four of the Guidelines.

Article Four discusses investment alternatives and includes language that refers to various government instruments as a group. For clarification purposes, we have specifically listed individual government agencies (also known as Government-Sponsored Enterprises or "GSE's") in which the Corporation invests.

Secondly we are recommending, as an addition to the list of permissible investments, money-market mutual funds that maintain a Net Asset Value of one dollar per share and that only invest in specific instruments already included in the Guidelines.

Some of the highlights of the Report are summarized below:

Investment Income

Total investment earnings of \$39.6 million were generated in fiscal 2008-09. Application of investment income was restricted to corporate requirements, project revenue bonds or specific projects as described below.

During fiscal 2008-09, ESDC's Corporate Funds portfolio generated investment income of \$14.5 million. Investment income was applied to debt service on the Corporation's corporate purpose bonds, portfolio maintenance costs, and a portion of ESDC's general and administrative expenses.

Investment income of \$12.6 million was generated on Revenue Bond Funds during fiscal 2008-09 and was applied to debt service on bonds for Correctional Facilities, University Facilities, Community Enhancement Assistance Program, and other programs related to State Facilities & Equipment and Economic Development & Housing obligations. Such funds applied to debt service directly offset State payment obligations.

The balance of \$12.3 million in investment income was derived from funds available for various economic development projects and programs.

Investment Portfolio

For fiscal 2008-09 the Corporation had average investments of \$1.71 billion with an average maturity of 144 days and a portfolio yield of 2.27%. The portfolio design reflects the need for relatively liquid balances, which are used to accommodate:

- Construction Drawdown Schedules
- Debt Service Payment Schedules
- Requirements under Bond Indentures
- Project Closing and Disbursement Schedules
- Corporate Operating Expenses

Investments are summarized as follows:

As of 3/31/09
Par amount in
millions of \$'s

ESDC Corporate, E.D., Bond & Related Funds

Corporate Operations, Reserves/Escrow & Other Restricted Funds (a)	262.1
Restricted Econ. Dev. Programs, Projects & Related Funds	623.8
Corporate Purpose Bond Funds – Funds related to Debt Service Reserves, Bond Service, and Housing	<u>291.7</u>
Total	1,177.6

Revenue Bond Project, Reserve, & Related Funds:

Correctional & Youth Facilities Programs	247.7
University Facilities	34.4
Community Enhancement Facilities Assistance Program	29.0
State Facilities & Equipment (excluding Correctional & Youth)	144.5
Economic Development & Housing (excluding Univ. & CEFAP)	<u>364.9</u>
Total	820.5

Grand Total 1,998.1

(a) Not shown here are funds that were held only temporarily in this account and were transferred out of the account in April 2009 (approximately \$19 million in State appropriations for April 1, 2009 debt service).

Requested Action

The Directors are asked to adopt the attached Investment Guidelines and Investment Report, and to authorize the taking of related actions.

Attachments

Resolution
Annual Investment Report

August 19, 2009

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE
DEVELOPMENT CORPORATION – (the “Corporation”) Approval of the Investment
Guidelines and Investment Report and Authorization to Take Related Actions

WHEREAS, the Corporation wishes to comply with Section 2925 of the Public Authorities Law ("Law") which mandates that public benefit corporations annually prepare and approve an investment report which includes, among other things, the Corporation's investment guidelines and

WHEREAS, said Law also requires the annual review and approval of its investment guidelines; and

WHEREAS, the Corporation has prepared an investment report for the fiscal year ended March 31, 2009 (“Report”); and

WHEREAS, the Corporation adopted investment guidelines in 1984 which have been amended and were most recently readopted by the Corporation on September 18, 2008 (“Guidelines”); and

WHEREAS, the Corporation has reviewed said Report and said Guidelines and found them to be satisfactory;

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Guidelines are hereby approved and it is further

RESOLVED, that the Report is hereby adopted; and it is further

RESOLVED, that the Chairman and Chief Executive Officer - Designate, the Chief Financial Officer, the Treasurer or their designees be, and each of them hereby is, authorized and empowered to submit said Report, as required by law, and to take such action and execute such agreements and instruments as he or she may consider necessary or desirable or appropriate in connection with the implementation of the Guidelines, and the Report and to take related actions.