

FOR CONSIDERATION

July 13, 2011

TO: The Directors

FROM: Kenneth Adams

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 ("ESD" or the "Corporation") Investment Report (the "Report") for the Fiscal Year ended March 31, 2011 is attached hereto. It includes (1) ESD Investment Guidelines ("Guidelines"); (2) Results of the Annual Independent Audit; (3) Investment Performance and Income Records; (4) Statement of Fees, Commissions and Related Service Charges; and (5) the Investment Portfolio as of March 31, 2011 by Fund and Instrument.

Investment Guidelines

The Guidelines were readopted with the Investment Report in August 2010. 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, among other things, 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 one amendment to the Guidelines.

Article Four discusses permissible investments. Now that the Small Business Technology Investment Fund ("SBTIF") has been consolidated into ESD, we are including investments that may be made within the SBTIF (section 4.1.1). These are the same investment options that were formerly included in the Guidelines when the SBTIF had previously been a part of ESD.

Some of the highlights of the Report are summarized below:

Investment Income

For the fiscal year 2010-11, there were total investment earnings of \$4.8 million (prior fiscal year was \$9.2 million). Investment income was applied to corporate requirements, revenue bond portfolio debt service, and projects and programs as described below.

During fiscal 2010-11, ESDC's Corporate Funds portfolio (which, in addition to various Corporate accounts, also includes Corporate Purpose bond funds and Housing funds) generated investment income of \$2.4 million. Investment income was applied to debt service on the Corporation's corporate purpose bonds, housing portfolio maintenance costs, and a portion of ESDC's general and administrative expenses.

Investment income of \$1.7 million was generated on Revenue Bond Funds during fiscal 2010-11 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. Funds that are applied to debt service directly offset State payment obligations.

The balance of \$0.7 million in investment income was derived from funds related to various economic development projects and programs.

Investment Portfolio

The Corporation had average investments of \$2.21 billion for fiscal 2010-11 (prior fiscal year was \$2.06 billion); the increase is primarily due to the timing of disbursements of bond proceeds. The portfolio had an average maturity of 75 days (prior fiscal year was 88 days) and a portfolio yield of 0.22% (prior fiscal year was 0.58%). As a benchmark, the average yield for U.S. T-bills with a 3 month maturity was 0.13% for the fiscal year; additionally, the average yield for U.S. Agencies with a 3 month maturity was 0.15% for the fiscal year. As of fiscal year end, U.S. T-bills and U.S. Agencies represented approximately 95% of the portfolio. The portfolio design reflects the need for a high degree of liquidity. These funds 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:

Par amount
in millions
as of 3/31/11

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

Corporate Operations, Reserves/Escrow & Other Restricted Funds	267.4
Restricted Econ. Dev. Programs, Projects & Related Funds	435.7
Corporate Purpose Bond Funds – Funds related to Debt Service Reserves, Bond Service, and Housing	<u>212.1</u>
Total	915.2

Revenue Bond Project, Reserve, & Related Funds:

Correctional & Youth Facilities Programs	236.1
State Facilities & Equipment	603.0
Economic Development & Housing	<u>607.9</u>
Total	1,447.0

Grand Total 2,362.2

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

July 13, 2011

NEW YORK STATE URBAN DEVELOPMENT CORPORATION d/b/a EMPIRE STATE DEVELOPMENT – (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 (“Report”) which includes, among other things, the Corporation's investment guidelines (“Guidelines”) and

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

WHEREAS, the Corporation has prepared the Report for the fiscal year ended March 31, 2011; and

WHEREAS, the Corporation adopted Guidelines in 1984 which have been amended and were most recently approved by the Corporation on August 16, 2010; 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 as amended are hereby approved and it is further

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

RESOLVED, that the President and Chief Executive Officer, 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.

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