

**NEW YORK LOCAL GOVERNMENT ASSISTANCE  
CORPORATION**

**ANNUAL INVESTMENT REPORT**

**FOR THE FISCAL YEAR ENDING MARCH 31, 2005**

A report to:            Division of the Budget  
                             Office of the State Comptroller  
                             Senate Finance Committee  
                             Assembly Ways and Means Committee

## **INTRODUCTION**

In accordance with Sections 2925(6) and 2925(7) of the Public Authorities Law, and as required by the New York Local Government Assistance Corporation's Investments Policy, Procedures, Reporting and Control Guidelines (the "Guidelines"), the Corporation shall annually prepare and approve an Investment Report.

The organization of this report is structured to conform with the prescribed format specified in the section on "Required Reports" of the Guidelines. Section I of this Annual Investment Report contains the Guidelines in effect on March 31, 2005. Section II contains a concise explanation of the Guidelines. Section III summarizes the recorded results of the Corporation's investment activity for the year ended March 31, 2005 and a schedule of the primary dealers used for the Corporation's investment transactions during its 2004-05 fiscal year. Section IV contains the Independent Auditors' Report on Compliance with Investment Guidelines for the fiscal year ended March 31, 2005. Pursuant to the Exclusive Agent Agreement between the Corporation and the State Comptroller (the "Comptroller"), as amended, the Corporation has delegated the responsibility of investing the Corporation's monies to the Comptroller.

After the Corporation's Board has reviewed and accepted this Report, copies of the Report will be submitted to the Division of the Budget, the Senate Finance Committee and the Assembly Ways and Means Committee in accordance with the Corporation's Guidelines.

**SECTION I**

**INVESTMENTS**

**POLICY, PROCEDURES, REPORTING AND CONTROL GUIDELINES**

**OF**

**THE NEW YORK**

**LOCAL GOVERNMENT ASSISTANCE CORPORATION**

**dated December 23, 2003**

**As amended by Resolution No. 2003-17  
on December 23, 2003**

# **NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION INVESTMENT GUIDELINES**

## **INTRODUCTION**

Pursuant to the Exclusive Agent Agreement between the New York Local Government Assistance Corporation ("Corporation" or "LGAC") and the Comptroller, the Corporation has delegated the responsibility of investing the Corporation's monies to the Comptroller. In addition, various investment restrictions and procedures are contained in the Corporation's Bond Resolutions.

These guidelines refer to various officers and employees of the Office of the State Comptroller. Each of such officers and employees designated in these Guidelines shall be deemed to be acting on behalf of LGAC when performing duties described in the Guidelines with respect to LGAC investments.

## **STATEMENT OF POLICY**

The basic guide for the investment of monies held on behalf of or in the custody of the New York Local Government Assistance Corporation is the "prudent person rule". The "rule" provides that fiduciaries are required to exercise the same diligence and prudence in the care and management of other people's money as they would their own. In addition, the rule provides that investments should be made in such a manner so as to seek a reasonable income while preserving capital.

Beyond the "prudent person rule", the investment of LGAC monies is restricted by Section 98a of the State Finance Law, as further restricted by the various Bond Resolutions of LGAC and the Payment Agreement between the Corporation and the Director of the Budget. (The Board recognizes that under current policy LGAC investments are limited to Treasury Notes, Treasury Bills, and Purchase and Sale of Securities (simultaneous purchase of a permitted investment with an agreement to sell it back to the seller)).

## **INVESTMENT OBJECTIVES**

The objectives of the investment program for LGAC monies are:

1. To safeguard the principal;
2. To obtain the maximum yield consistent with safety of principal;
3. To develop a portfolio which will emphasize quality, flexibility, diversity (where possible), and marketability; and
4. To maintain the tax-exempt status of LGAC's debt.

## **INVESTMENT STANDARDS**

These objectives have been implemented through the development of the following standards which, while subject to continual review, provide the criteria against which investment decisions must be judged.

- A. Statutory - No investment of LGAC monies may be made unless it is an Authorized Investment. The converse is not to be inferred, i.e., the fact that there is authorization for a particular type of investment is not sufficient ground, in itself, for making such an investment. Fiduciary judgment is an essential factor.

B. Administrative - Procedures are maintained to ensure that:

1. Only high grade securities are purchased;
2. Every purchase or sale is in accordance with the Bond Resolutions and the investment policies adopted by the Board of Directors;
3. Every purchase or sale is approved by an authorized officer of the Corporation or the Comptroller.

**AUTHORIZED INVESTMENTS**

The Comptroller is authorized to invest monies that are on deposit with the Trustee in the following funds held under each Resolution:

Local Assistance Payment Fund  
Operating Fund  
Cost of Issuance Account  
Rebate Fund  
Subordinated Payment Fund

Debt Service Fund (restricted to authorized investments stated below)  
Capital Reserve Fund (restricted to authorized investments stated below)

Accounts and sub-accounts within each of the foregoing funds or temporary accounts for the payment of costs of issuance or capitalized interest may from time to time be established in accordance with a Series Resolution or upon the direction of the Corporation.

The Corporation and the Comptroller agree that monies in the Local Government Assistance Tax Fund (restricted to 1, 3, and 4 below) will be held in the custody of the Comptroller and the Commissioner of Taxation and Finance and will be kept separate and not commingled with other monies and will be invested in Debt Service Fund Investments pursuant to the Resolutions. In accordance with the Bond Resolutions, to the extent such funds are not so invested, the Comptroller will, upon receipt, deliver such monies to the Trustee.

A. To the extent permitted by law, the following are the Authorized Investments for the Capital Reserve Fund.

1. Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America including Treasury Strips issued by the Federal Reserve Bank (currently, only Treasury Notes and Treasury Bills are purchased);
2. Direct and general obligations of New York State, provided that the rating thereon shall not be less than the rating on the Corporation's Bonds, each as established by Fitch Ratings, Moody's Investors Service and Standard & Poor's, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such obligations of the State;
3. Certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company having a combined capital and surplus of at least \$50,000,000 organized under the laws of any state of the United States of America or any national banking association (including the Corporation's Trustee), which certificates of deposit are fully insured by the Federal Deposit Insurance Corporation or fully secured by such securities as are described in paragraph (1) above, but in any event collateralized to the level required by each of the rating agencies referred to in paragraph (2) if and to the extent such firms maintain a rating on the Corporation's Bonds;

4. Any Purchase and Sale of Securities (simultaneous purchase of a permitted investment with an agreement to sell it back to the seller) ("PSS") with any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Corporation's Trustee) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York with respect to any one or more of the securities described in paragraph (1) above;
  5. General obligation bonds and notes of any state other than New York State and, to the extent permitted by law, general obligation bonds and notes of any political subdivision of the State or any state, provided that such bonds and notes receive the highest rating from each of Fitch Ratings, Moody's Investors Service and Standard and Poor's, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such bonds and notes.
- B. The following are Authorized Investments for the Debt Service Fund.
- To the extent permitted by law, and to the extent the securities are legal investments for the Corporation, the Authorized Investments for monies in the Debt Service Fund are as described in (1), (3), and (4) under Authorized Investments for the Capital Reserve Fund.
- C. Monies on deposit in any other funds or accounts held by the Trustee as listed above may be invested pursuant to Section 98a of the State Finance Law.

### **DIVERSIFICATION REQUIREMENTS**

In order to ensure the safeguarding of principal from imprudent risks, it is the policy of LGAC, where possible, to diversify a portfolio among the investment instruments which it may legally and prudently hold. However, since LGAC is legally limited in the type of securities it may invest in, the opportunity to diversify among investments is very limited.

### **QUALIFYING INVESTMENT BANKERS AND BROKERS**

To ensure safety of principal, the Comptroller has established criteria, consistent with the Bond Resolutions, for qualifying investment bankers, brokers, agents, and dealers ("Authorized Investment Bankers and Brokers") with whom LGAC may transact investments. These criteria are:

1. From the list of recognized reporting government securities dealers, the Deputy Comptroller responsible for the daily investment operation designates the Authorized Investment Bankers and Brokers eligible for PSS investments.
2. As market conditions and the financial viability of the reporting government securities dealers changes, the Short Term Investment Officers are responsible for revising the lists of Authorized Investment Bankers and Brokers.

If it is necessary to use a banker or broker that is not an Authorized Investment Banker and Broker under the above criteria, then a written waiver must be signed by an authorized officer of the Corporation permitting such an investment. (See Exhibit A for authorized waiver.)

### **DEALER LIMITATIONS**

Each recognized Authorized Investment Banker and Broker is restricted as to the total dollar amount of outstanding PSS investments which may be placed with them at any point in time. Such restrictions are based on the size and quality of the Authorized Investment Banker or

Broker as well as the Short Term Investment Officer's judgment concerning the ability of the various Authorized Investment Banker and Broker to effectively engage in the quantity and quality of required investments. In no event shall the total amount of such investments exceed the designated dollar limitation established by the Comptroller or an authorized officer. It is the responsibility of the Short Term Investment Officer to revise the dollar limitations as market conditions and the financial viability of the Authorized Investment Banker and Broker change.

If circumstances arise where it becomes necessary to exceed the designated dollar amount authorized, a written waiver must be signed by an authorized officer of the Corporation or its designee permitting such an investment. (See Exhibit B for authorized waiver.)

### **PURCHASE AND SALE OF SECURITIES ("PSS")**

It is the Comptroller's policy to regard a Purchase and Sale of Securities as a simultaneous purchase of a permitted investment with an agreement to sell it back to the seller as permitted by law. The term and yield of the PSS is fixed at the time that offers are being sought from an Authorized Investment Banker or Broker. The Comptroller concurs with the recommendation of the Federal Reserve Bank of New York and the Association of Primary Dealers and marks to market the securities purchased under a PSS.

A properly executed Master Repurchase Agreement must be on file with the Comptroller and the Trustee in a form approved by the Deputy Comptroller for Pension Investment and Public Finance before entering any PSS transaction. As in any purchase of securities, the Corporation's Trustee or other fiscal agent is instructed not to release the funds to the seller until the securities have been delivered according to the Cash Management Unit's (CMU) instructions.

### **REQUIRED REPORTS**

In accordance with Section 2925(5) of the Public Authorities Law, the Deputy Comptroller for Pension Investment and Public Finance shall cause to be prepared and filed with the Board on a quarterly basis a report on any new investments, the inventory of existing investments, and the selection of investment bankers, brokers, agents, dealers or auditors.

Annually, in accordance with Sections 2925(6) and 2925(7) of the Public Authorities Law, the Deputy Comptroller for Pension Investment and Public Finance shall cause to be prepared an Investment Report for approval by the Board which shall include the following:

- A) the Corporation's Investments Policy, Procedures, Reporting and Control Guidelines;
- B) Amendments to the Guidelines since the last investment report;
- C) an explanation of the Guidelines and Amendments;
- D) the results of the annual independent audit;
- E) the investment income record of the Corporation; and
- F) a list of the total fees, commissions or other charges paid to each Authorized Investment Banker or Broker, including Trustee fees, since the last Investment Report.

The Investment Report shall be submitted to the Division of the Budget and copies thereof shall be submitted to the State Comptroller's Office, the Senate Finance Committee and the Assembly Ways and Means Committee. Copies of the Investment Report shall also be made available to the public upon reasonable request.

### **INVESTMENT DECISION PROCESS**

To ensure that the Comptroller exercises his fiduciary responsibility on behalf of the LGAC for each investment transaction, the following decision making process has been established:

1. The Comptroller appoints the Deputy Comptroller of Pension Investment and Public Finance and empowers the Deputy Comptroller with the ability to buy and sell securities on behalf of the Comptroller and to execute all agreements, instruments, documents and papers with the like power and effect as if the Comptroller had executed these documents in the performance of his statutory duties for LGAC.
2. The Deputy Comptroller formulates an overall investment strategy, and disseminates the approved investment strategy to the Short-Term Investment Officers at monthly staff meetings in writing as minutes of the meeting and orally, and confirmed in writing, as required by changing economic and market conditions and resulting strategy. Copies of all such correspondence are provided to the Compliance Officer.
3. The Short Term Investment Officers implement the approved investment guidelines, making minor adjustments within the broader strategy as market conditions change, in the execution of their daily investment transactions commensurate with appropriate legal statutes, Bond Resolutions and policy considerations.
4. A legal opinion is obtained from LGAC's General Counsel when necessary.

### INVESTMENT PROCEDURES

The following investment procedures have been established to ensure that the Corporation's investment policy has been implemented and that the objectives and standards of the portfolios under management are met.

#### A. Cash Position

1. Debt Management Staff will provide the Short Term Investment Officer with written instructions regarding the investment of all LGAC monies. Instructions will include both the amount to be invested and the term of the investment.
2. To assist Debt Management Staff in determining the current cash position of LGAC Funds, the Short Term Investment Officer will generate a report, from the QED investment management system, detailing all LGAC maturing investments for the upcoming week. The report will include both maturing principal and any interest earnings.

#### B. Solicitation of Offerings

1. Based on the amount of funds, the duration of the availability of funds, the legal framework of the funds and LGAC's investment strategy, the Short Term Investment Officers solicit competitive offerings from the approved list of Authorized Investment Bankers and Brokers.
2. As offerings are solicited, the Investment Officers record them on their daily offering sheets.
3. Once offerings have been received from all interested Authorized Investment Bankers and Brokers, the Investment Officers determine which offering or offerings: (i) meets the maturity requirements of the funds; (ii) provides the greatest rate of return; (iii) fulfills the Corporation's investment strategy; (iv) provides collateral, if required, that meets the legal list of acceptable collateral and is in an amount sufficient to protect the amount of the investment; and (v) does not exceed the imposed Authorized Investment Banker and Broker limitation. (Note: If the Authorized Investment Banker and Broker limitation is exceeded, the Investment Officer must obtain a waiver signed by an authorized officer of the Corporation.)



4. Because of the limited timeframe in which an investment decision must be made, the Short Term Investment Officers decide which of the offerings to accept.
5. The Short Term Investment Officers confirm the winning offering telephonically with the appropriate Authorized Investment Banker or Broker and issue delivery instructions.
6. All investment transactions are entered in the internally maintained investment management system (QED).
7. After the winning offering is telephonically confirmed with the Authorized Investment Banker or Broker, the Short Term Investment Officer prepares an Investment Purchase and/or Sales Record.
8. The Investment Records are transferred to CMU staff who complete the processing of the trade to include notifying the Trustee via telefax of all trades.

### **REPORTING AND CONTROLS**

#### **A. Reporting**

1. Current Portfolio by type of security.
2. Income Projection Report (Weekly) - Interest received by type of security.
3. Earned Income Summary (As Requested) - Shows interest received and interest earned by security as well as the investment yield for a given period of time.
4. Broker Report (As Requested) - Breakdown of all trades by Authorized Investment Bankers and Brokers.
5. General Journal (As Requested) - Listing in chronological order of all trades by settlement date along with a summary of purchases, sales and maturities by type of security.

#### **B. Controls**

1. The Comptroller authorizes the Investment Officers who may execute trades or direct the Trustee to execute trades on behalf of the Corporation.
2. On a daily basis, the sheets listing all offerings received by the Short Term Investment Officer are reviewed and approved by either the Deputy Comptroller for Pension Investment and Public Finance, the Assistant Comptroller (Bureau of Equity and Fixed Income Investments), the Director of Equity and Fixed Income Investments, or the Director of Debt Management.
3. After the winning offering is telephonically confirmed with the Authorized Investment Banker or Broker, an Investment Purchase and/or Sales Record is prepared by a Short Term Investment Officer. These Records will also be reviewed and initialed by either the Deputy Comptroller for Pension Investment and Public Finance, the Assistant Comptroller (Bureau of Equity and Fixed Income Investments), the Director of Equity and Fixed Income Investments, or the Director of Debt Management by the close of the business day.

4. All transactions are reported by the CMU to the Trustee, where the Fund's investments settle, and the Trustee will not fund the investments unless the delivered securities conform to CMU's instructions.
5. All transactions are reviewed by the Division's Compliance Officer.
6. An annual inventory of all securities is conducted by an independent accounting firm. Other more specialized audits are performed throughout the year by internal auditors and independent auditors.

### **CONFLICTS OF INTEREST**

The Corporation and the Office of the State Comptroller are committed to honoring the highest professional standards of conduct. To this end, all employees of the Division of Pension Investment and Public Finance are provided with Policies and Procedures regarding professional standards of conduct. These Policies and Procedures are intended to prevent insider trading and the misuse of material non-public information and confidential information. All employees must also submit securities transaction disclosure forms on a semi-annual basis. These disclosure forms are filed with and reviewed by the Assistant Comptroller (Bureau of Equity and Fixed Income Investments) to assure compliance with the Policies and Procedures.

Exhibit A

Short Term Investment  
Officer

Comptroller  
(Deputy Comptroller)

Waiver of Qualifying  
Investment Banker/  
Broker

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You are hereby authorized to transact an investment with (name of banker/broker) for the purchase/sale of (type and amount of investment) even though such banker/broker does not meet the established criteria.

This authorization is limited to (type and amount of investment) on (date), and any future investments with (name of banker/broker) will require a new authorization.

\_\_\_\_\_  
Comptroller  
(Deputy Comptroller)

Exhibit B

Short Term Investment  
Officer

Comptroller  
Deputy Comptroller

Waiver of Dealer  
Limitation

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You are hereby authorized to exceed the \$ \_\_\_\_\_ limitation which has been place on (name of banker/broker) for the purchase of (amount and type of investment) for the (name of portfolio) on (date).

This authorization is limited to (amount and type of investment), and any future investments with (name of banker/broker), which exceeds its \$ \_\_\_\_\_ limit, will require a new authorization.

\_\_\_\_\_  
Comptroller  
(Deputy Comptroller)

## **SECTION II**

### **EXPLANATION OF THE CORPORATION'S**

### **INVESTMENT GUIDELINES**

The "Investments Policy, Procedures, Reporting and Control Guidelines" of the New York Local Government Assistance Corporation in effect as of March 31, 2005, are based on the principles and precepts of investment safety and control contained in the Office of the State Comptroller's "Investment Guidelines for Public Authorities" as revised on January 2, 1998. The Corporation's Guidelines contained in Section I of this Report track and elaborate on the requirements of the State Comptroller's Guidelines. As such, the Guidelines set forth the Corporation's statement of policy regarding the investment of Corporate funds and the objectives of such investments. By the Guidelines, the Corporation's Directors have determined that the basic guide for the investment of Corporate funds shall be the "prudent person rule" as further limited by statute, the Corporation's Bond Resolutions and the Payment Agreement between the Corporation and the Director of the Budget.

As indicated in the Guidelines, the Corporation's objectives for its investment program are to:

1. safeguard the investment principal from any imprudent risks;
2. obtain the maximum yield consistent with safety of principal;
3. develop a portfolio which will emphasize quality, flexibility, diversity, where possible, and marketability; and
4. maintain the tax-exempt status of the Corporation's debt.

**SECTION III**

**NEW YORK LOCAL GOVERNMENT ASSISTANCE  
CORPORATION**

**INVESTMENT ACTIVITY**

**FISCAL YEAR ENDED MARCH 31, 2005**

The New York Local Government Assistance Corporation received a total of \$4,769,753.97 in interest on its investments during the fiscal year ended March 31, 2005.

Interest receipts for the Corporation's 2004-05 fiscal year were derived as follows:

| <u>Fund or Account</u> | <u>Total Interest Earnings</u> |
|------------------------|--------------------------------|
| Debt Service Funds     | \$ 237,435.83                  |
| Capital Reserve Funds  | 4,465,399.87                   |
| 2003A Cost of Issuance | 488.10                         |
| 2004A Cost of Issuance | 1,293.06                       |
| Operating Fund         | <u>67,365.45</u>               |
|                        | \$4,771,982.31                 |

Interest receipts on the Debt Service Funds and the Capital Reserve Funds were used to meet a portion of the Corporation's debt service requirements during the period May 1, 2004 through April 1, 2005.

The Corporation had cash and invested assets of \$476.8 million at the end of the year, \$219.3 million of which represented amounts required for its April 1, 2005 debt service and swap payments. The investments held by the Corporation included U.S. Treasury Notes and Repurchase Agreements which are backed by U.S. Treasury Bills and/or U.S. Treasury Notes. A listing of the Corporation's invested assets by fund is shown in Attachment A to this Report.

The Corporation utilized the services of nine qualified dealers for investment transactions during the 2004-05 fiscal year. All investments were awarded based on the highest yield to the Corporation.



**DEALER****SECURITIES PAR**  
**(Dollars in Millions)**

|                      |           |
|----------------------|-----------|
| Lehman Brothers      | \$ 382.7  |
| Morgan Stanley       | 244.1     |
| Bear Stearns         | 138.5     |
| UBS                  | 104.6     |
| First Boston         | 93.9      |
| Bank of America      | 92.3      |
| Salomon/Smith Barney | 52.9      |
| Greenwich Capital    | 17.7      |
| Goldman Sachs        | 4.9       |
|                      | \$1,131.6 |

**INVESTMENT PORTFOLIO OF THE  
NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION  
As of March 31, 2005**

| <u>SERIES</u> | <u>FUND</u>              | <u>COST</u>             | <u>INVESTMENT</u>     |
|---------------|--------------------------|-------------------------|-----------------------|
| 1991A         | Capital Reserve          | \$16,104,539.38         | Treasury Notes        |
| 1991B         | Capital Reserve          | 19,680,914.38           | Treasury Notes        |
| 1991C         | Capital Reserve          | 16,750,661.57           | Treasury Notes        |
| 1991D         | Capital Reserve          | 25,493,056.64           | Treasury Notes        |
| 1992A         | Capital Reserve          | 11,636,473.83           | Treasury Notes        |
| 1992C         | Capital Reserve          | 10,331,243.75           | Treasury Notes        |
| 1993A         | Debt Service             | 3,924,000.00            | Repurchase Agreements |
| 1993A         | Capital Reserve (a)      | 62,580,000.00           | Repurchase Agreements |
| 1993D         | Capital Reserve          | 19,532,162.11           | Treasury Notes        |
| 1994A         | Capital Reserve          | 6,241,414.06            | Treasury Notes        |
| 2003A         | Capital Reserve          | 50,054,630.47           | Treasury Notes        |
| 2004A         | Capital Reserve          | 10,755,219.38           | Treasury Notes        |
|               | Operating Fund           | 4,359,000.00            | Repurchase Agreements |
|               | <b>Total Investments</b> | <b>\$257,443,315.57</b> |                       |

(a) The assets of the variable interest rate capital reserve fund are combined for investment purposes.

**SECTION IV**

**NEW YORK LOCAL GOVERNMENT ASSISTANCE  
CORPORATION**

**INDEPENDENT AUDITORS' REPORT ON  
INVESTMENTS**

**MARCH 31, 2005**



**KPMG LLP**  
515 Broadway  
Albany, NY 12207

## **Independent Accountants' Report**

Board of Directors  
New York Local Government Assistance Corporation:

We have examined the New York Local Government Assistance Corporation's (Corporation) compliance with Section 2925 (3) f of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended March 31, 2005. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Corporation's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the year ended March 31, 2005.

**KPMG LLP**

June 24, 2005