

New York Local Government Assistance Corporation 2010-11 Mission Statement Measurements

Goal #1: Issue up to \$4.7 billion in long-term Corporation bonds to finance certain local assistance payments due from the State of New York (as well as certain other amounts necessary for the issuance of such LGAC bonds) to help eliminate the State's reliance on the annual issuance of intra-year tax and revenue anticipation notes (Spring Borrowing).

Measurement of goal #1:

Q. 1. What is the total amount of bonds issued by the Corporation?

LGAC issued the last of the long-term bonds authorized by statute in SFY 1995-96. The bond proceeds were used for the statutorily authorized purposes. Therefore, LGAC has concluded this component of its mission.

Goal #2: Manage a) the Corporation's debt portfolio through maturity in an attempt to achieve a balance between the lowest cost of funds and appropriate market risk levels while maintaining the exclusion of interest on LGAC debt from federal and State income taxation, b) the Corporation's operational costs efficiently and c) the investment of (i) funds until needed for debt service payments or operating expenses, (ii) monies in the Capital Reserve Fund, and (iii) any escrow funds.

Measurement of goal #2:

- Q. 1. Has the Corporation ensured that debt service and related support payments relative to the Corporation's bonds have been made accurately and in a timely manner?**
- Q. 2. Has the Corporation assessed its portfolio and market conditions to determine if any actions (including, but not limited to conversions, liquidity facility replacement, or refundings) are needed to lower costs or manage risk?**
- Q. 3. Has the Corporation worked with Bond Counsel to insure that it took steps necessary to maintain the exclusion from income taxes of interest on Corporation debt?**
- Q. 4. Has the Corporation effectively managed the investment of its funds?**
- Q. 5. Has the Corporation ensured that its operations were run efficiently?**

Q. 1. During fiscal year 2010-11, the Corporation made all debt service and related portfolio support payments, as it has done in all previous years, accurately and in a timely manner.

Q. 2. The Corporation manages its existing debt portfolio to strategically minimize risk and lower costs while adhering to all notices and any other requirements of each bond series' underlying documents, which may include policies of municipal bond insurance. In the case of variable rate debt, this can also include adherence to liquidity facility, remarketing and/or broker-dealer agreements.

In May 2010 and December 2010, the Corporation completed transactions to address certain expiring liquidity facilities, the increased cost of liquidity facilities and to reduce liquidity renewal risk. The transactions provided the Corporation with greater flexibility relative to the management of its bond portfolio. As a result of the May transaction, the Corporation, through a refunding to fixed rate bonds, eliminated liquidity renewal risk and support costs for \$277.4 million of bonds. . As a result of the December transactions, the Corporation, through a refunding to fixed rate bonds, eliminated liquidity renewal risk and support costs for \$265.1 million of bonds and, in a separate transaction, reduced interest rate expense by removing the FSA bond insurance from \$137.5 million of its VRDBs and reoffered the bonds as uninsured variable rate demand bonds with a substitute liquidity facility. Due to the collapse of the municipal bond insurance industry, this insurance policy was driving up the interest costs associated with these bonds.

Q. 3. With respect to each conversion or issuance of refunding debt the Corporation consults with Bond Counsel and its Financial Advisor to appropriately size the debt service reserve funds related to its bonds to insure that tax requirements are met. The Corporation also utilizes the services of a verification agent where necessary and an arbitrage rebate calculator to ensure that it complies with all rebate and yield restriction requirements. The Corporation also annually reviews available State funds to ensure that tax requirements are met.

In December 2010, LGAC received correspondence from the Internal Revenue Service (“IRS”) that the Corporation’s Refunding Bonds Series 2004A-1, 2004A-AV, 2004A-BV, 2004A-CV and 2004A-DV with a reported issue price of \$223,393,427 (bonds issued plus premium generated) had been selected for examination. Staff provided the IRS all requested information and, on April 27th, LGAC received a letter from the IRS that the special risk assessment examination of the bonds had been completed and that a determination had been made to close the examination with no change to the position that the interest received by the beneficial owners of the bonds is excludable from gross income under section 103 of the IRS Code.

Q. 4. The Corporation invests funds on hand until they are needed to make debt service payments or for other operational expenses in accordance with all applicable laws, rules and regulations and its own investment guidelines. The investments guidelines are reviewed and approved by the Board each year. In addition, the Corporation’s independent auditor provides a report each year with respect to investment compliance in accordance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York. The Corporation’s independent auditor issued an unqualified opinion on this matter for the Corporation’s year ending March 31, 2011.

Q. 5. The Corporation’s enabling act includes a provision that in order to reduce its operating expenses the Corporation shall, to the extent practicable, utilize existing employees of the State, hiring its own

employees only if the necessary functions of the Corporation cannot be performed without the hiring of such employees. Currently, State officers and employees act as officers and staff of the Corporation and receive no compensation from LGAC for services provided to the Corporation. Additionally, in order to build on pre-existing efficiencies, the Corporation has always relied upon state employees to support the functions of the Corporation and has never hired its own employees.

Goal #3: Beginning in 2004, certify on an annual basis through 2034, payments required to be made to the City of New York or its assignee from the Local Government Assistance Tax Fund.

Measurement of goal #3:

Q. 1. Has the annual payment due to the City of New York or its assignee, the Sales Tax Asset Receivable Corporation, from the Local Government Assistance Tax Fund been appropriately certified?

The Corporation accurately and in a timely manner completed the required certification of the payment to be made to the Sales Tax Asset Receivable Corporation during fiscal year 2010-11 and has done the same for all previous fiscal years, where required.