NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

INVESTMENT GUIDELINES, OPERATIVE POLICY AND INSTRUCTIONS

(June 2012)

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I. Introduction

These guidelines set forth the policy of the New York State Energy Research and Development Authority (hereafter "the Authority") and instructions to its officers and staff with regard to its investments and the monitoring and reporting of these investments. The guidelines are intended to meet or exceed the provisions of Public Authorities Law (hereafter, "PAL") Section 2925, the Office of the State Comptroller's Investment Guidelines for Public Authorities contained in 2 NYCRR Part 201, Section 201.3, and the provisions of the Authority's enabling legislation concerning Authority investments. In accordance with PAL Section 2925, the guidelines will be reviewed, revised, if necessary, and approved as frequently as necessary and appropriate, but not less frequently than annually, in the manner described hereafter.

The provisions of these guidelines apply to all monies for which the Authority is responsible for directing investment. This includes monies to which the Authority has legal title and which are held by the Commissioner of Taxation and Finance as fiscal agent of the Authority (PAL Section 1859(1)). It also includes monies to which the Authority does not have legal title, but for which it is responsible for directing investment such as monies held by the trustee for the State Service Contract Revenue (West Valley) Bonds.

The Authority conducts a Private Activity Bond Financing Program. Pursuant to this program, tax-exempt non-recourse securities are issued by the Authority, and the proceeds are made available to State utilities and other non-State entities to finance eligible projects. These securities do not constitute a debt of or charge against the credit of the Authority or the State. Rather, the utility or other entity for which the securities are issued is liable for payment of the principal, redemption premium, if any, and interest on the securities. The proceeds of each issuance are deposited with a trustee chosen by the participating utility or other entity, and are not available for investment by the Authority. Generally, the Indenture of Trust for the transaction will contain a list of securities in which the Trustee may invest theses monies. The list of permitted investments is approved by the Commissioner of Taxation and Finance as part of the Commissioner's review pursuant to the enabling legislation of the Authority. Investments are made at the direction of the participating utility or other entity, and not at the direction of the Authority. Accordingly, the provisions of these Investment Guidelines do not apply to the investing of these monies. Nonetheless, when participating in the formulation of these financing transactions, staff are directed to pursue the objectives set forth in the Investment Guidelines and to require that prudent provisions as to permitted investments, collateral requirements and investment monitoring be included in the underlying documents, as appropriate.

II. Definitions

"Broker-Dealer" means any government bond trader approved by the Commissioner of Taxation and Finance reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York.

"Custodian" means the Commissioner of Taxation and Finance, or a bank, trust company or national banking association designated or approved to hold securities on behalf of or for the benefit of the Authority, as trustee or otherwise.

"Eligible Banking Institution" means any bank, trust company, or national banking association approved by the Commissioner of Taxation and Finance doing business through offices located within New York State. For the State of New York's Excelsior Linked Deposit Program only, Eligible Banking

Institution shall also includes savings and loan institutions.

"Federal Governmental Obligations" means obligations of the United States and obligations the principal and interest of which are unconditionally guaranteed by the United States.

"Repurchase Agreement" means a written contract whereby the Authority purchases securities, and the seller of the securities agrees to repurchase the securities at a future date for a specified price. Repurchase Agreements may be used to purchase only Federal Government Obligations. The Authority may enter into a Repurchase Agreement only with an Eligible Banking Institution or a Broker-Dealer.

"Money market funds" means shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, registered under the Federal Securities Act of 1933.

III. Investment Objectives

The investment objectives of the Authority, listed in order of importance, are as follows: to conform with all applicable Federal, State and other legal requirements; to adequately safeguard investment principal; to earn reasonable rates of return; and to provide for portfolio liquidity. These investment objectives will likely be achieved through substantial reliance on Federal Governmental Obligations and minimal investment in long-term securities.

IV. Delegation of Authority

The responsibility for implementing the investment program is delegated to the Authority's Treasurer. All investment transactions shall be approved and authorized by the Treasurer or, in his/her absence the Controller and Assistant Treasurer, or any Officer of the Authority. Such authorized investment transactions shall be initiated and executed by the Commissioner of Taxation and Finance (or his/her authorized designees), the Authority's fiscal agent established pursuant to Section 1859 of the Public Authorities Law. The Treasurer shall establish written procedures for the operation of the investment program consistent with these Investment Guidelines. Such procedures shall include an internal control structure to provide a reasonable level of accountability over the authorization, recording and reporting of investment transactions, and to provide for a segregation of duties between authorization and accounting functions.

Investments shall be made in accordance with the Authority's Investment Guidelines, Operative Policy and Instructions using the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the objectives set forth herein. All Authority staff participating in the investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Authority's ability to effectively fulfill its responsibilities. All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

V. Types of Investments Authorized

The Authority may deposit monies in demand deposit (checking) and time deposit (savings) accounts with Eligible Banking Institutions located in New York State. Monies deposited in such accounts shall be fully secured as soon as practicable by Federal Deposit Insurance Corporation (FDIC) insurance or obligations of New York State or Federal Government Obligations, subject to approval of the Commissioner of Taxation and Finance, the Authority's fiscal agent, in consultation with the Authority.

Investments shall be limited to the following types of securities:

(1) Federal Governmental Obligations, provided that the term of each shall not exceed five (5) years;

(2) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State, provided that the term of each shall not exceed five (5) years;

(3) certificates of deposit of Eligible Banking Institutions located in New York, provided that: the term of each shall not exceed five (5) years; pursuant to the limitations of a resolution adopted by the Members in June 1994, the Authority may invest in certificates of deposits through the State of New York's Excelsior Linked Deposit Program, whereby the Authority's deposit will earn a fixed rate of interest equal to 2% to 3% less than the institution's published certificate of deposit rate consistent with this program's criteria; and subject to all other provisions outlined in these Guidelines.

(4) Repurchase Agreements, provided that the term of each shall not exceed sixty (60) days and that no more than 40 percent of the Authority's total investments shall be invested in Repurchase Agreements at the time of purchase; and

(5) Money market funds whose investments are limited to the authorized investments described above and whose objective is to maintain a constant share value of $1.00, provided that: (a) no more than 5 percent of the total amount of the Authority's investments shall be invested in money market funds for more than thirty consecutive business days; and (b) no more than 10 percent of the total amount of the Authority's investments shall be invested in money market funds at any time.

Nothing herein contained shall preclude the Authority from imposing further restrictions on the investing of funds in any Indenture of Trust relating to the issuance of bonds.

VI. Authorized Financial Institutions and Dealers

Eligible Banking Institutions and Broker-Dealers authorized for the Authority's investment purposes shall be approved based upon policies and procedures established by the Commissioner of Taxation and Finance. The Authority will periodically consult with the Department of Taxation and Finance concerning their policies, practices and the resulting list.

VII. Diversity of Investments

To the extent practical, the Authority shall diversify its investments by financial institution, by investment instrument, and by maturity. The cash flow requirements of the Authority will be a significant determining factor in selecting the term of investment securities. Competitive quotations, pursuant to policies established by the Commissioner of Taxation and Finance and executed by his/her designated staff, shall be used to select the institution from which investments are purchased.

Except as otherwise required by any policies and practices of the Commissioner of Taxation and Finance, the Authority shall not invest more than 35 percent of its total investment portfolio with a single Eligible Banking Institution.

VIII. Collateral and Delivery of Securities

Collateral for investments shall be limited to: (i) obligations of New York State and obligations the principal and interest of which are guaranteed by New York State; and (ii) Federal Governmental Obligations. The Authority shall not accept a pledge of a proportionate interest in a pool of collateral. Collateral shall be segregated in the name of the Authority, and shall be in the custody of the Authority or a

third party Custodian pursuant to a written custodial agreement; provided, that if the Custodian is the Commissioner of Taxation and Finance, a written custodial agreement shall not be required. The written custodial agreement shall specify circumstances, if any, under which collateral may be substituted, and shall provide that the Custodian holds the collateral solely for the benefit of the Authority and makes no claim thereto. The market value of collateral and accrued interest, if any, shall equal or exceed the value of the secured investment and accrued interest, if any, at all times. Collateral shall be marked to market at the time of the initial investment and, thereafter, no less frequently than monthly using the bid or closing price as quoted in The Wall Street Journal.

In addition to collateral permitted for investments, collateral for deposits made with banks participating in the State's Excelsior Linked Deposit Program shall, subject to the discretion of the Commissioner of Taxation and Finance with confirmation to the Authority, include obligations permitted under Section 105 of the State Finance Law.

Certificates of deposit, demand deposits and time deposits shall be fully collateralized for amounts in excess of Federal Deposit Insurance Corporation (FDIC) coverage.

Securities purchased through a Repurchase Agreement shall be marked to market at least monthly.

Collateral shall not be required with respect to the purchase of obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, or money market funds.

Under any Repurchase Agreement, payment shall be made by or on behalf of the Authority to the seller upon the seller's delivery of obligations of the United States to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the obligations of the United States are credited to the Custodian's Federal Reserve Bank account. Payment shall be made by or on behalf of the Authority for obligations of New York State, obligations the principal and interest of which are guaranteed by New York State, Federal Governmental Obligations, certificates of deposit, and other purchased securities upon the delivery thereof to the Custodian designated by the Authority, or, in the case of a book entry transaction, when the purchased securities are credited to the Custodian's Federal Reserve System account.

IX. Written Contracts

The Authority has determined that, with the exception of Repurchase Agreements, written contracts are not a regular business practice for the types of securities (obligations of New York State, Federal Governmental Obligations, etc.) in which Authority monies may be invested. The interests of the Authority will be adequately protected by conditioning payment by or on behalf of the Authority on the physical delivery of purchased securities to the Authority or its Custodian, or, in the case of book-entry transactions, on the crediting of purchased securities to the Custodian's Federal Reserve System account. In addition, all purchases will be confirmed in writing to the Authority.

Only an Eligible Banking Institution or a Broker-Dealer shall be qualified to enter into a Repurchase Agreement with the Authority’s fiscal agent. The Authority’s fiscal agent shall enter into a Master Repurchase Agreement, patterned after the Bond Market Association (formerly Public Security Association) model master repurchase agreement, with each Eligible Banking Institution or Broker-Dealer with which the fiscal agent enters into a specific Repurchase Agreement. The Master Repurchase Agreement shall include:

(a) a description of the relationship of the parties as purchaser and seller;

(b) a description of the events of default which would permit the purchaser to liquidate the pledged collateral;

(c) procedures which ensure that the Authority obtains a perfected security interest in the underlying securities; and

(d) the method of computing margin maintenance requirements, including a limitation, based on policies established by the Commissioner of Taxation and Finance, that securities purchased and held as collateral for repurchase agreements shall be Federal Government Obligations maturing in twelve years or less, and provided that: (i) if such collateral has a maturity of seven years or less, the market value must equal or exceed 101% of the par value of the repurchase agreement; and (ii.) if such collateral has a maturity greater than seven years, the market value must equal or exceed 102% of the par value of the repurchase agreement.

X. Qualification of Custodians

The following shall be qualified to act as Custodian: the Commissioner of Taxation and Finance, any bank or trust company chartered by the State of New York which is not a member of the Federal Reserve System, or any bank, trust company, or national banking association which is a member of the Federal Reserve System, including an Eligible Banking Institution, which transacts business through offices located within the State of New York. During the time that any bank or trust company serves as Custodian, it must be rated at least "A", or its equivalent, by a nationally recognized independent rating agency. With respect to the holding of securities purchased by the Authority through a Repurchase Agreement, the Custodian may not be the Eligible Banking Institution with which the Authority or its fiscal agent has entered into such Repurchase Agreement, nor an agent of such Eligible Banking Institution for purposes of the Repurchase Agreement.

XI. Audit and Finance Committee

The functions of the Audit and Finance Committee with respect to investments are to:

(a) monitor the system of internal controls;

(b) verify relevant matters relating to securities purchased or held as collateral semi-annually and on an unscheduled basis;

(c) determine whether the investment results are consistent with the investment objectives set forth in these Investment Guidelines;

(d) review any independent audits of the investment program;

(e) review these Investment Guidelines periodically and recommend to the Members of the Authority such amendments thereto as may be necessary or appropriate; and

(f) evaluate systematically and periodically the investment program consistency with the provisions of PAL Section 2925, these Investment Guidelines, and the Office of the State Comptroller’s Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3).

In support of its functions, the Audit and Finance Committee shall:

(a) require the Authority's independent auditors to verify semi-annually, and at least once annually on an unscheduled basis, that the provisions of these Investment Guidelines relating to the delivery and possession of and payment for securities, and custodial possession and periodic valuation of collateral are being met;

(b) review the quarterly, annual, and any other periodic investment reports, and recommend to the Members of the Authority such changes in the annual investment report as it deems necessary or appropriate;

(c) review the written annual audit report of the independent auditors;

(d) discuss with the independent auditors, with staff and officers not present, the results of the annual independent audit and the written annual audit report; and

(e) review not less frequently than annually these Investment Guidelines, and recommend to the Members of the Authority such changes in these Investment Guidelines as it deems necessary or appropriate.

XII. Operations and Procedures

The Treasurer, or in his/her absence the Controller and Assistant Treasurer or any Authority Officer, shall authorize the purchase and sale of all securities, authorize the disbursement of funds for delivery of securities, determine the selection of brokers, dealers and Custodians, and execute contracts for Repurchase Agreements and custodial services on behalf of the Authority. The process of initiating, reviewing and approving requests to purchase and sell securities shall be documented and retained for audit purposes. Oral directions concerning the purchase or sale of securities shall be confirmed in writing. The Authority shall pay for purchased securities upon the delivery or book-entry thereof, and the Authority will obtain written confirmation of each delivery or book-entry. Custodians must have prior authorization from the Authority to deliver securities and collateral, and shall not deliver securities except upon receipt of funds. Custodians shall confirm in writing all such transactions. Custodians shall report whenever activity has occurred in a custodial account of the Authority.

The Treasurer shall develop a detailed investment procedures implementing the Investment Guidelines as part of the Accounting Policy and Procedures Manual which shall include, but not be limited to, the following:

(a) the establishment and maintenance of a system of internal controls for investments;

(b) methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;

(c) a data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and

(d) requirements for periodic reporting and a satisfactory level of accountability.

Except in the purchase of government securities at their initial auction, the Authority will encourage investment selections utilizing competitive quotations based upon the procedures established by the Commissioner of Taxation and Finance and carried out by his/her designated personnel.

The Treasurer shall maintain a record of investments. The record shall identify each security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and Custodian of the collateral.

At least monthly, the Authority shall verify the principal amount and market values of all investments

and collateral. The Authority shall obtain appropriate listings from Custodians and compare such listings against the records of the Authority.

XIII. Audit

At the time the independent auditors to the Authority conduct the annual audit of the accounts and financial affairs of the Authority, the independent auditors shall audit the investments of the Authority for the subject fiscal year. The annual investment audit shall determine whether:

(a) the Authority's investment practices and operations have been consistent with the provisions of PAL Section 2925, these Investment Guidelines, the Office of the Comptroller's Investment Guidelines for Public Authorities, and the Authority's investment operating procedures contained in its Accounting Policies and Procedures Manual;

(b) adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's investment assets; and

(c) a system of adequate internal controls for investments is maintained.

The independent auditors shall prepare a written annual audit report which presents the results of their annual investment audit, and shall include:

(a) a description of the scope and objectives of the audit;

(b) a statement that the audit was made in accordance with generally accepted government auditing standards;

(c) a description of any material weaknesses found in the internal investment controls;

(d) a description of all non-compliance with provisions of PAL Section 2925, these Investment Guidelines, the Office of the State Comptroller's Investment Guidelines for Public Authorities (2 NYCRR Part 201, Section 201.3), or the Authority’s investment operating procedures contained in its Accounting Policies and Procedures Manual;

(e) a statement of positive assurance of compliance on the items tested; and

(f) a statement of any other material deficiency or finding identified during the audit not covered in (e) above.

XIV. Reporting

Within sixty (60) days of the end of each of the first three quarters of the Authority's fiscal year, the Treasurer shall prepare and submit to the Members of the Authority and to the Audit and Finance Committee of the Authority a quarterly investment report which indicates new investments, the inventory of existing investments, the selection of Custodians and Broker-Dealers, and such other matters as the Treasurer deems appropriate.

Within 120 days of the end of the fiscal year, the Treasurer shall prepare and submit to the Audit and Finance Committee an annual investment report, which shall include the Investment Guidelines, including any amendment to the Investment Guidelines since the last annual investment report; an explanation of the Investment Guidelines and amendments; the results of the annual independent audit; the investment income

record; a list of total fees, commissions or other charges paid to each Broker-Dealer and Custodian; and such other matters as the Treasurer deems appropriate.

The Members of the Authority shall review and approve the annual investment report, if practicable, at the June meeting of the Authority, for submission thereof to the Division of the Budget, the Department of Audit and Control, the Senate Finance Committee, and the Assembly Ways and Means Committee.

The Authority's annual financial statements shall report the Authority’s investments and provide such disclosure information as is required by applicable governmental accounting standards.

Not less frequently than annually, and if practicable, at the June meeting of the Authority, the Members of the Authority shall review, amend, if necessary or appropriate, and approve these Investment Guidelines.

The provisions of these Investment Guidelines and any amendments hereto shall take effect prospectively and shall not invalidate the prior selection of any Custodian, Broker-Dealer, any prior investment, nor any list of permitted investments set forth in any indenture of trust or similar document previously executed by the Authority.