

**INVESTMENT GUIDELINES
FOR THE
NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY**

I. SCOPE

These Guidelines (the "Guidelines") apply to all moneys and other financial resources available for deposit and investment by the Nassau County Sewer and Storm Water Finance Authority (the "Authority") on its own behalf and on behalf of any other entity or individual.

II. INVESTMENT OBJECTIVES

The primary objectives of the Authority's investment program shall be to: (1) comply with all applicable provisions of law; (2) safeguard the principal of all deposits and investments; (3) provide sufficient liquidity to ensure that monies invested are available to meet expenditures as they come due; and (4) obtain the maximum rate of return that is consistent with the preceding objectives.

III. AUTHORITY

The implementation and administration of the Authority's deposit and investment program, including the authority to execute any security and custody agreements required by these Guidelines, is hereby delegated to, and is the responsibility of, the County Treasurer of Nassau County, New York (the "County Treasurer") who shall establish procedures for the operation of the program consistent with these Guidelines. Such procedures shall regulate subordinate County employees and include an adequate internal control structure to provide a satisfactory level of accountability based on a record incorporating descriptions and amounts of deposits and investments, transaction dates, interest rates and other information necessary to manage the portfolio and to identify the sources of all funds being invested.

IV. INTERNAL CONTROLS

The County Treasurer on behalf of the Authority is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that Authority deposits and investments are safeguarded against loss from unauthorized use or disposition, that such transactions are executed in accordance with proper authorization and recorded properly and, that such transactions are managed in compliance with applicable laws and regulations.

V. PRUDENCE

The County Treasurer and his or her subordinates shall at all times act responsibly as custodians of the public trust. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their affairs, not for speculation, but for investment, considering the safety of principal as well as the income to be derived. The County Treasurer and his or her subordinates

involved in the investment process shall refrain from personal investment activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.

VI. AUTHORIZED INVESTMENTS

Except as otherwise may be provided in these Guidelines, monies not required for immediate use or disbursement may be invested in any of the following, in accordance with section 1232-j of Title 10-D of Article 5 of the Public Authorities Law (the “Nassau County Sewer and Storm Water Finance Authority Act” or the “Act”) and sections 98 and 98-a of the New York State Finance Law:

- (1) bonds and notes of the United States;
- (2) bonds and notes of the State of New York;
- (3) general obligation bonds and notes of any state other than the State of New York, provided that such bonds and notes receive the highest rating of at least one independent rating agency designated by the State Comptroller;
- (4) obligations for the payment of which the faith and credit of the United States or of the State of New York are pledged;
- (5) notes, bonds, debentures, mortgages and other evidences of indebtedness of the United States Postal Service; the Federal National Mortgage Association; Federal Home Loan Mortgage Corporation; Student Loan Marketing Association; Federal Farm Credit System or any other United States government sponsored agency, provided that at the time of the investment such agency or its obligations are rated and the agency receives, or its obligations receive, the highest rating of all independent rating agencies that rate such agency or its obligations, provided, however, that no more than two hundred fifty million dollars may be invested in the obligations of any one agency;
- (6) judgments or awards of the Court of Claims of the State of New York;
- (7) stocks, bonds, or notes of any county, town, city, village, fire district or school district of the State of New York issued pursuant to law;
- (8) bonds and notes of the Savings and Loan Bank of the State of New York;
- (9) collateral trust notes issued by a trust company, all of the capital stock of which is owned by not less than twenty savings banks of the State of New York;
- (10) bonds and notes issued for any of the corporate purposes of the New York State Housing Finance Agency;
- (11) bonds and notes issued for any of the corporate purposes of the New York State Medical Care Facilities Finance Agency;
- (12) bonds and notes issued for any of the corporate purposes of the New York State Project Finance Agency;
- (13) bonds and notes issued for any of the corporate purposes of the Municipal Assistance Corporation for New York City maturing or redeemable at the option of the holder within twelve years of the date of such investment;
- (14) obligations of any corporation organized under the laws of any state in the United States maturing within two hundred seventy days provided that such obligations receive the highest rating of two independent rating services designated by the

State Comptroller and that the issuer of such obligations has maintained such ratings on similar obligations during the preceding six months provided, however, that the issuer of such obligations need not have received such rating during the prior six month period if such issuer has received the highest rating of two independent rating services designated by the State Comptroller and is the successor or wholly owned subsidiary of an issuer that has maintained such ratings on similar obligations during the preceding six month period or if the issuer is the product of a merger of two or more issuers, one of which has maintained such ratings on similar obligations during the preceding six month period, provided, however, that no more than two hundred fifty million dollars may be invested in such obligations of any one corporation;

- (15) bankers' acceptances maturing within ninety days which are eligible for purchase in the open market by federal reserve banks and which have been accepted by a bank or trust company, which is organized under the laws of the United States or of any state thereof and which is a member of the federal reserve system and whose short-term obligations meet the criteria outlined in subsection 14 of this Section VI. Provided, however, that no more than two hundred fifty million dollars may be invested in such bankers' acceptance of any one bank or trust company; and
- (16) a certificate of deposit of a bank or trust company in the State of New York. Any certificate of deposit shall be fully secured by the issuer thereof depositing with the County Treasurer on behalf of the Authority stocks, bonds, or notes of any county, town, city, village, fire district or school district of the State of New York issued pursuant to law and maturing within five years from the date of issuance of such certificate of deposit, bonds or notes or direct or guaranteed obligation of the United States of America or its agencies or of the State of New York or bonds and notes issued for any of the corporate purposes of the Municipal Assistance Corporation for the City of New York in an amount equal to the amount of such certificate of deposit.

Investments shall be payable or redeemable, at the option of the Authority, within such time as the proceeds shall be needed to meet expenditures for the purpose for which the monies were provided.

VII. DEPOSITS

All monies collected by any member or officer of the Authority, or by officer or employee of the County acting on behalf of the Authority, shall be deposited in such banks in the State of New York as have been authorized to receive the deposit of County moneys in accordance with the Nassau County Charter. It is the policy of the Authority that all moneys collected by any member or officer of the Authority, or by officer or employee of the County acting on behalf of the Authority, shall be immediately transferred to the County Treasurer on behalf of the Authority except as is otherwise provided by law.

VIII. DIVERSIFICATION

Although it is the policy of the Authority to diversify its investment portfolio, the opportunity to diversify among types of investments is very limited because of legal constraints. Subject to these constraints, however, investments and deposits shall be diversified by financial institution, maturity and type of investment to eliminate the risk of loss resulting from over concentration of assets in a specific bank or trading partner or a specific maturity.

IX. AUTHORIZED BANKS AND TRADING PARTNERS

The County Treasurer shall maintain a list of banks and other trading partners approved for investment purposes and if appropriate, establish limits on the amount of investments that may be outstanding with any bank or trading partner at any time. All banks and trading partners with which the Authority conducts business must be creditworthy as determined by criteria established by the County Treasurer. All banks with which the Authority does business shall provide their most recent Consolidated Report of Condition (Call Report) to the County Treasurer at his or her request. Trading partners not affiliated with a bank shall be recognized primary dealers designated by the Federal Reserve Bank of New York. The County Treasurer is responsible for periodically evaluating the financial position of banks and trading partners with which the Authority does business and, based on such evaluations, for revising the list of eligible banks and trading partners as he or she deems appropriate.

X. PROCEDURES FOR SECURING DEPOSITS, SPECIAL TIME DEPOSITS AND CERTIFICATES OF DEPOSIT

(a) WRITTEN SECURITY AGREEMENTS

Monies of the Authority shall only be deposited or invested in a bank with which the Authority, or the County for the benefit of the Authority, has entered into a written security agreement. Such security agreement, which may consist of an Undertaking and Assignment, shall require the bank to secure all Authority deposits by providing to the Authority obligations of the United States or of the State of New York or of the County of a market value equal at all times to the amount on deposit, and shall: (1) prescribe the manner in which the market value of the collateral shall be determined and require any adjustments to market value; (2) require the bank to provide additional collateral if the market value falls below the required amount of collateral; (3) provide that the collateral is being provided by the bank to secure all Authority deposits in the bank, together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default; (4) grant a security interest to the Authority in any securities pledged by the bank pursuant to the agreement; (5) set forth the conditions under which the collateral may be sold, presented for payment, substituted or released; (6) define the events of default that will enable the Authority to exercise its rights against said pledged securities; (7) require that securities pledged to the Authority to secure deposits and not registered in the name of the Authority be delivered in a form suitable for transfer or with an assignment in blank to a custodial bank with which the Authority, or the County for the benefit of the Authority, has entered into a written custodial agreement; (8) provide for the valuation of collateral; (9) require that the agreement be properly authorized by the board of directors of the bank and that the bank maintain such agreement as an official record of the bank; and, (10) contain such other

provisions deemed necessary to enable the Authority to enforce its interest in the collateral in the event of a default by the bank.

(b) CUSTODY AGREEMENTS

All securities pledged by a bank pursuant to a written security agreement shall be delivered to a bank (a "Custodian") with which the Authority, or the County for the benefit of the Authority, has entered into a written custody agreement. The custody agreement shall: (1) specify the manner in which the Custodian shall hold securities; (2) require the Custodian to hold the securities as agent of, and custodian for, the Authority and to keep such securities separate and apart from the general assets of the Custodian and not permit them to become the backing for any other deposits or liabilities of the Custodian; (3) require the Custodian to confirm in writing the receipt, substitution or release of any securities from the Authority's custody account; (4) provide for the methodology and frequency of valuation of securities held by the Custodian; (5) require the Custodian to make appropriate entries on its books at all times showing the Authority's interest in the securities; (6) require physical securities be kept in the Custodian's vault and physically segregated from the Custodian's property and other property held by the Custodian; (7) require the Custodian to subordinate any claims it may have against the securities to the Authority's interest therein; (8) permit the Authority, or the County Treasurer on behalf of the Authority, access to books and records maintained by the Custodian with respect to the Authority's account; and (9) contain any other provisions deemed necessary and appropriate. A bank shall not be permitted to act as Custodian of any securities pledged by such bank to secure Authority deposits.

XI. PURCHASE AND SAFEKEEPING OF INVESTMENTS

(a) The County Treasurer on behalf of the Authority shall establish operating procedures for making investments with approved banks and trading partners and revise such procedures as he or she deems appropriate from time to time.

(b) In the case of investments in certificates of deposit and special time deposits, the procedures shall require the solicitation of quotations from more than one of the approved banks.

(c) In the case of the purchase of obligations, the procedures shall: (1) require competitive quotations, except in the purchase of governmental securities at their initial auction; (2) require all purchased obligations, unless registered or inscribed in the name of the Authority, to be purchased through, delivered to, and held in the custody of a bank with which the Authority, or the County for the benefit of the Authority, has entered into a written custodial agreement which complies with the requirements contained in paragraph (b) of Section X of these Guidelines; (3) ensure that obligations are purchased, sold or presented for redemption or payment by a custodian only in accordance with instructions from the Authority, or the County Treasurer on behalf of the Authority, or a subordinate authorized to make the investment; and (4) provide that payment of the Authority's funds shall only be made upon delivery of the purchased obligations.

(d) The County Treasurer is further authorized on behalf of the Authority to purchase obligations subject to a repurchase agreement in accordance with the procedures enumerated in paragraph XII of these Guidelines.

XII. PROCEDURES FOR REPURCHASE AGREEMENTS

The County Treasurer is authorized on behalf of the Authority to purchase and sell obligations pursuant to repurchase agreements subject to the following restrictions:

- (1) No repurchase transaction shall be entered into with any trading partner until the Authority, or the County for the benefit of the Authority, has entered into a written master repurchase agreement with the trading partner;
- (2) Repurchase agreements shall be entered into only with trading partners approved by the County Treasurer pursuant to Section IX of these Guidelines and shall be subject to any trading limits established for each trading partner;
- (3) Only obligations of the United States of America and/or obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America shall be purchased pursuant to the repurchase agreement;
- (4) Obligations purchased pursuant to the repurchase agreement shall be held by a custodian, other than the trading partner, pursuant to a written custodial agreement; and
- (5) The price paid for the securities shall not be in excess of the market value of the securities being purchased plus any accrued interest not reflected in the market price.

Master repurchase agreements between the Authority, or the County for the benefit of the Authority, and its trading partners shall: (1) contain procedures which ensure that the Authority obtains a perfected security interest in the purchased securities; (2) define events of default; (3) prohibit the trading partner from substituting securities for the purchased securities during the term of the repurchase agreement, provided, however, that a master repurchase agreement which permits a trading partner to substitute substantially the same securities for any purchased securities only on notice to the Authority, or to the County on behalf of the Authority, and which provides that the Authority, or the County on behalf of the Authority, may then elect not to accept such substitution, shall be deemed to comply with the requirements of this clause (3); (4) limit the term of a specific repurchase transaction to a period of not more than thirty days; (5) contain appropriate margin requirements and procedures for timely correction of margin deficiencies or excesses; (6) provide that the Authority, or the County on behalf of the Authority, shall not make payment for the purchased securities until they are received by the custodian and that the custodian shall not transfer the purchased securities to the trading partner until the Authority, or the County on behalf of the Authority, has received the repurchase price in immediately available funds; (7) require that the terms of all specific repurchase transactions, including rate, price and a description of the specific securities being purchased, be confirmed in writing; (8) provide that all specific repurchase transactions shall be subject to the terms of the master repurchase agreement; and (9) contain such other provisions as are deemed necessary and appropriate. The written custody agreement shall, to the extent applicable, comply with the requirements of paragraph (b) of Section X of these Guidelines.

XIII. MONEYS IN CONNECTION WITH CONTRACTS WITH BONDHOLDERS

In accordance with Section 1232-j of the Act, the Authority may, notwithstanding any other provisions of these Guidelines, contract with the holders of any notes, bonds or other obligations as to the custody, collection, security, investment and payment of any moneys of the Authority or any moneys held in trust or otherwise for the payment of notes, bonds or other obligations or in any way to secure such debt, and to carry out any such contract notwithstanding that such contract may be inconsistent with the provisions of these Guidelines. Moneys held in trust or otherwise for the payment of notes, bonds or other obligations or in any way to secure such debt and deposits of such moneys may be secured in the same manner as moneys of the Authority.

XIV. LEGAL REVIEW

All security agreements, custodial agreements, letters of credit, surety bonds and repurchase agreements shall be reviewed by the County Attorney or other attorney retained for this purpose to determine their compliance with the requirements of these Guidelines.

XV. ANNUAL REVIEW, AUDIT AND REPORT

(a) The governing body of the Authority shall review and approve these Guidelines at least annually.

(b) The Authority shall also obtain an annual independent audit of all investments, the results of which shall be available to the governing body of the Authority at the time the annual review and approval of these Guidelines is conducted by the Authority.

(c) Furthermore, the Authority shall annually cause to be prepared, and shall approve, an investment report which shall include these Guidelines, amendments to such Guidelines since the last investment report, an explanation of the investment guidelines and amendments, the results of the annual independent audit, the investment income record of the Authority, a list of any new investments, the inventory of existing investments, the selection of investment bankers, brokers, agents, dealers or auditors and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and adviser rendering investment associated services to the Authority since the last investment report. Such investment report may be a part of any other annual report that the Authority is required to make. The Authority shall annually submit its investment report to the County Executive and County Treasurer and to the Department of Audit and Control of the State Comptroller.