NASSAU COUNTY INTERIM FINANCE AUTHORITY
MINUTES OF THE MEETING OF THE
AUDIT AND INTERNAL CONTROLS COMMITTEE
HELD ON FEBRUARY 12, 2009

Pursuant to public notice dated February 10, 2009, the Audit and Internal Controls Committee ("Committee") of the Nassau County Interim Finance Authority ("NIFA") was convened at 9:00 AM, at the offices of Smith Affiliated Capital Corp. located at 800 Third Ave, 12th floor in New York, NY.

The following members of the Audit and Internal Controls Committee of the Authority were present:

Robert Smith - Chair
Ronald Stack
Christopher Wright

Also representing the Authority were Evan Cohen, Executive Director and Jeremy Wise, General Counsel.

Also in attendance were Robert Lamb from Lamont Financial Advisors, Nancy Winkler from PFM, and Tom Stokes, Jeff Nogid, Howard Weitzman and Jack Tamagni representing Nassau County.

Upon determining that a quorum was present, the meeting was called to order.

Chairman Robert Smith stated that the purpose of this meeting is to discuss NIFA's variable rate bonds, its bond insurers and liquidity providers, and how the market is reacting to them.

Executive Director Cohen stated that NIFA has approximately $1.9 billion of debt outstanding of which $600 million of these bonds have swaps providing a hedge, leaving $310 million as unhedged variable rate demand bonds.

General Counsel Wise stated that NIFA issued an RFP for liquidity to replace Dexia as a liquidity provider and FSA as an insurer for some of NIFA's variable rate bonds, which were not selling well. He stated that NIFA would like the County to tell the Committee what it would like NIFA to do with its Dexia and FSA backed bonds as well as its remaining unhedged variable rate bonds.

Tom Stokes, Deputy County Executive for Management, Budget and Finance, stated that the County would like to reduce its interest rate exposure to variable rate debt and take care of the problems created by Dexia and FSA backed bonds. Consequently, the County recommended that NIFA fix out all of the $311 million of unhedged variable rate bonds and replace all of the bonds that are currently backed by Dexia or FSA. He acknowledged and recommended that NIFA accept the bids for liquidity from JP Morgan, BNP Paribas and Bank of America that would be used to substitute for the bonds currently backed by Dexia.

Chairman Smith pointed out that the County has been well served by having variable rate debt despite the spike in rates.

Nancy Winkler from PFM stated that even taking into account the disruptions that have been experienced and the need to restructure the action rate bonds last summer, NIFA's variable rate program has benefitted the County by more

than $50 million.

Jeff Nogid from the County repeated the request formerly made by Mr. Stokes. that NIFA fix out roughly $311 million worth of unhedged variable rate and get rid of Dexia by converting to the other liquidity providers that were formerly discussed. He stated that this will result in $600 million worth of variable rate debt with lines of credit from BNP, KBC, Bank of America and JP Morgan and no unhedged floating rate debt.

General Counsel Wise stated that going to fixed rate bonds and changing liquidity provider is going to cost the County money, at least in the short term and wanted to be sure that the County understood those costs and the attendant risks of the actions that were going to be undertaken by NIFA. The representatives from the County said they understood

Comptroller Weitzman stated that he was pleased with the County's recommendation to fix out the debt and that NIFA was going to do it. He also stated that he would like more transparency with respect to this debt.

NIFA Chairman Stack stated that this is a committee meeting and this bond issue is subject to NIFA Board approval. He stated that there will also be a Leaders' meeting to discuss this further.

General Counsel Wise pointed that even when the commitment letters are signed, there will be a caveat in those letters stating that this is subject to final

approval by the NIFA Directors.

NIFA's financial advisor, Bob Lamb, stated that after soliciting liquidity providers, NIFA received a good offer from JP Morgan for over $200 million. He stated that NIFA also received offers from BNP Paribas and Bank of America to switch or be transferred to different series. He indicated that after reviewing all the information he agreed with the County's recommendation concerning the removal of the unhedged variable rate debt and the removal of Dexia as a liquidity provider on remaining variable rate debt.

General Counsel Wise stated that the rating agencies are aware of NIFA's use of synthetic fixed rate debt. He also stated that he understands that the rating agencies consider NIFA debt a liability to the County and that is why NIFA is agreeing to refund the unhedged variable rate debt.

NIFA Chairman Stack stated that if this was just NIFA debt and the County did not have liability as seen by the rating agencies, he would recommend that NIFA maintain its unhedged variable rate debt.

Upon motion duly made and seconded, the following resolution was unanimously approved:

Resolution No. Audit 09-01

RESOLUTION CONCERNING VARIABLE RATE DEBT OF THE AUTHORITY

WHEREAS, Nassau County has submitted to the Nassau County Interim Finance Authority ("NIFA") a memo dated February 9, 2009 requesting that NIFA fix out certain of its variable rate bonds and substitute certain liquidity providers for some of NIFA's remaining variable rate bonds; and

WHEREAS, said memo has been reviewed by NIFA's Financial Advisor, Lamont Financial Advisors ("Lamont"), and Lamont has found the County's recommendations to be reasonable;

NOW, THEREFORE, BE IT RESOLVED that memos from the County and Lamont are incorporated herein as part of this resolution; and be it further

RESOLVED, that this Committee recommends to the NIFA Directors (the "Board"), that NIFA convert as much of its unhedged variable rate debt as feasible and practicable, including its 2002A, 2002B, and 2008F bonds, in the approximate amount of $310 million, from variable to fixed rate bonds; and be it further

RESOLVED, that we recommend the substitution of Dexia liquidity, with alternate liquidity, as outlined in the aforementioned memos; and be it further

RESOLVED, that the Chairman of NIFA or his designee(s) take, subject to final approval of the Board, all actions necessary or desirable to effectuate this resolution.

*** * ***

The Chairman then entertained a motion to adjourn. Upon motion duly made and seconded, the Directors voted unanimously to adjourn the meeting at 10:35 AM.

Respectfully submitted,

Laurie A. Leat
Corporate Secretary