

**Meeting of the Suffolk Tobacco Asset Securitization Corporation
(STASC)
October 21, 2011**

Minutes

Attendees: Jim Morgo, Chairman and President, STASC; Terrence Pearsall, Treasurer & Secretary, STASC; Robert Fonti, Independent Director, STASC; Eric Naughton, Deputy County Executive for Financial Affairs, Connie Corso, Budget Director, Dennis Brown, Bureau Chief, Municipal Law; Amy Engel, Senior Management Analyst, Christina Capobianco, Chief Deputy Comptroller, Brenda Sloan-Papele, Chief Auditor, Robert Lipp, Budget Review Office, Brian Petersen, AVZ, Rich Tortora, Capital Markets Advisors.

Minutes Approved: The minutes from the December 1, 2010 meeting were considered and discussed. T. Pearsall made the motion to approve, R. Fonti seconded.

There was a brief discussion about concerns that Fred Pollert, former Deputy County Executive, had raised about how much money was included in the 2012 Recommended Operating Budget (\$7.9 million) for disputed payments. Upon receiving Fred's email, Jim Morgo, reached out to the financial advisor, Rich Tortora, the accountant, Brian Petersen of AVZ, the Budget office and Bond counsel, as well as the other STASC directors to make sure that STASC was handling the disputed payment issue correctly. After much research and discussion it was determined that STASC's primary responsibility is to ensure that the bond holders get paid. The STASC directors do not have to worry about fiduciary malfeasance because they have set up a liquidity reserve account to ensure that bond holders will get paid. As for the amount of disputed payments and what amount gets included in the County's Recommended Operating Budget, it was determined that that is not the responsibility of the STASC directors. Mr. Morgo conveyed this information to his fellow trustees in a memo dated October 16, 2011

Fred Pollert also recommended that the County use the remaining 25% as collateral and borrow against the Sewer Stabilization Reserve Fund or the Tax Stabilization Reserve Fund. However, Christina Capobianco, Chief Deputy Comptroller explained that the Treasurer is already authorized to borrow against those funds for cash throughout the year so further borrowing from those sources is not feasible.

Following the discussion, the minutes were approved unanimously.

Discussion of Securitization of Residual Tobacco Settlement Revenues:

By way of background, a brief explanation was given regarding how the full amount of Tobacco Settlement Revenues (TSRs) was not securitized in its entirety in 2008. In fact, as of 2013 the County share of TSRs goes from 64% to 25% and the County Legislature's Presiding Officer, William J. Lindsay, in a letter dated 10/7/11, asked that STASC "issue a Request for Proposal (RFP) for the full securitization of the tobacco revenue."

Legislative Request & Reasoning - Terry Pearsall, the Presiding Officer's appointee to STASC, explained that without the additional revenue from securitization of the remaining TSRs, the County is broke and will have no choice but to layoff over 700 employees. He said that the request for the RFP is coming only because of the County's "desperate financial condition."

Chairman's Reservations - Jim Morgo said that he has strong reservations about doing another securitization deal. It is his understanding that the market has changed dramatically since 2008. He said that a securitization of the remaining TSRs would be the ultimate "one shot." He recalled that during the 2008 securitization debate at the county legislature several legislators expressed reservations about that deal, and one said that the county was "mortgaging its future." Mr. Morgo pointed out, at that time, that the revenues from the 2008 securitization would benefit the county over four years and that we would not be securitizing the entire county share of the TSRs. He added that market conditions changed dramatically one month after we did the 2008 securitization and he doubted that we could get anywhere as favorable terms now as we did in August, 2008. However, it was pointed out by Ms. Capobianco that a securitization was done in Illinois recently and favorable terms were achieved there.

Market Overview - Rich Tortora, the STASC financial advisor, addressed the group and provided an overview of the background, current climate and proposed way to proceed, should the County decide to actively pursue securitization.

Potential Responders - Rich explained that shortly after the STASC deal closed in 2008, the market significantly changed for the worse. He said that if we were to issue an RFP now, he would expect the likely responders to be: Goldman Sachs, Citibank, Jeffrey's, and Bank of America/Merrill. The new deal would be structured much more like a traditional revenue bond financing and would not have the complex structure of the 2008 bond financing.

Potential Proceeds - Rich also stated that we have approximately \$5 million coming to the County annually in TSRs. If we chose to securitize the remaining amount, it would be a par amount of approximately \$40 million. STASC would have to deduct the costs incurred from the issuance and then we could hopefully expect approximately \$30 million in net proceeds. As opposed to the 2008 proceeds, the 2011 proceeds would be used for working capital. He agreed it would be a one-shot infusion of money to the County Operating budget.

Additional Residual income - could also be expected to the County, probably in the amount of \$2.5million a year. The exact figure would vary depending on the amount of net proceeds, the interest rate, domestic tobacco consumption and the amount of disputed payments. However, financial projections do indicate that even after the debt service payments, the County could still reasonably expect to receive some payments for the life of the bonds. The subject of "residuals" prompted questions from Ms. Corso and Mr. Morgo. In response, it was stated that residuals would probably exist because tobacco consumption would not decrease dramatically in the near future.

Bob Fonti inquired as to what other steps the Legislature is taking to address the budget gap. He also wanted help better understanding the cost-benefit analysis of the proposed transaction.

BRO - Budget Review Office representative Robert Lipp said that the Legislature's Working Group is currently determining how best to close the budget hole. He concurred with Terry Pearsall that if we don't do tobacco securitization, we will definitely have to include layoffs in the budget. He also said without new revenue the layoffs might have to be twice the 700 that Mr. Pearsall mentioned. He said that BRO and the Legislature are being creative and coming up with ways to close the gap. He said that they anticipate making "less than full" restorations of positions, doing a property tax increase, implementing various fee increases and performing a refunding of existing bonds. He did admit however that those measures still do not close the entire gap.

Risk - Brian Petersen of AVZ expressed a concern that the County would still be taking a risk with the residual payments. However, Rich Tortora and Christina Capobianco assured him that that is not the case because any payments that came through to the County after the second securitization and after the payment of the debt service would not be a risk to the County.

2008 RFP – Christina Capobianco from Audit and Control highlighted some points of the 2008 RFP. She explained that last time the County's Purchasing Department mailed the RFP out on behalf of STASC. It was sent to likely participants and they were given 10 days to respond. Interviews were conducted on June 19 and 20th of 2008 and the award was made to a primary underwriter with several secondary underwriters at that time.

Suggested Review of Responses - Due to the fact that this proposed deal will be significantly smaller (\$225 million vs. \$40 million) Dennis Brown from the County Attorney's office suggested that Rich Tortora evaluate all of the responses and then make recommendations to the STASC Board of Directors, the Executive's office and the Legislature. Everyone agreed.

Costs of Securitization – include the cost of the financial advisor, bond counsel, legal transaction fees, rating agencies and the underwriters themselves. For a \$40 million deal, STASC can expect to pay somewhere between \$240,000-\$300,000 in costs associated with a new deal. Rich Tortora stated that he expects all of the costs of issuance to be much less than in 2008 and he said he knows that his fees will be "significantly less."

Pros and Cons – Bob Fonti inquired as to the pros and cons of the deal. It was explained that the pros are the immediate help for the 2012 budget and the transference of risk away from the County. The cons are the costs associated with the deal and once the remaining TSRs are securitized the amount of annual TSRs to the County will diminish drastically.

Mr. Morgo asked Rich Tortora to discuss what would happen if the terms are not favorable when the deal goes to market. Mr. Tortora said that STASC can decide not to move

forward at any point. Even if the deal goes to market and the pricing on that day is not favorable, STASC can simply say, no, we are not going to go forward today, we are going to wait. Mr. Tortora emphasized that STASC has full control to decide.

Timeline – it was agreed that a new RFP would be sent out on 10/26. It would be due back electronically on 11/4. Rich Tortora would present the overview and recommendations to the STASC board on 11/8 and it would go before the Legislature at a special meeting called for early in the day 11/9. The RFP itself would be sent to the most likely respondents and it would be advertised in the daily Bond Buyer publication.

Structure – The group determined that we should see if the debt service payment can be delayed until 2013. However, Brian Petersen indicated that that will only mean that we net less on the deal because the underwriters will incorporate that payment into their projections.

Repurchase Agreement – it is possible that another RFP may be necessary for another repurchase agreement, similar to the one we did in 2008.

Process to Implementation – Dennis Brown explained that STASC would need to go before the Legislature to obtain approval to dispose of the remaining 25% of TSRs. He said that we would also have to amend the local law to allow the residual sale. Jim Morgo indicated that in 2008, the request to securitize was initiated by the Executive branch. As such, Jim was the lead on the deal and was the key point for Legislative presentations and questions. This time, the Legislative branch is initiating the request so Jim asked the Board of Directors if they would agree that it is more appropriate for Terry, the Presiding Officer's representative, to be the lead on the deal and that all press inquiries regarding this deal would be referred to him. Everyone agreed. Mr. Morgo said that it was belief that the County Executive opposes this new securitization because of his opposition to one-shots.

Timing – The Comptroller's office indicated that if the deal could close by December 5, 2011 it would greatly assist the County because then the County would not have to issue a Revenue Anticipation Note (RAN). All efforts will be made to close the deal by December 5, 2011.

The Vote - (Mr. Tortora left the room during the discussion and vote.) A motion was made by Terry and it was seconded by Bob Fonti. Dennis Brown read the resolution and the vote was called. Ms Capobianco said that the Comptroller's office supported this deal and Mr. Lipp, who indicated he was one of the biggest critics of the 2008 deal, said he supports this securitization. Jim Morgo expressed reservations because of his previously stated concerns but understood that "desperate times call for desperate measures," so he would vote a reluctant yes. Bob Fonti said that he is reluctant too, but he can't see laying off county employees if we don't securitize so he voted yes. Terry Pearsall voted yes. Following the vote, the cost of issuance was discussed. It was agreed that Terry Pearsall, as Board Treasurer, would negotiate these costs and receive agreement on his negotiations from the two other trustees. Mr. Morgo asked Mr. Tortora about his costs for this deal. Mr. Tortora restated that he would reduce his costs.

Execution of Contract Extension for AVZ for their work on PARIS – Terry made the motion, Bob Fonti seconded and it was unanimously approved.

Adjourn: Motion to adjourn was made by T. Pearsall, seconded by R. Fonti. Approved unanimously.