Meeting of the Suffolk Tobacco Asset Securitization Corporation (STASC)
March 2, 2012

Minutes

Attendees: Jim Morgo, Chairman and President, STASC; Terrence Pearsall, Treasurer & Secretary, STASC;; Connie Corso, ex-officio STASC Member and County Budget Director; Dennis Brown, Bureau Chief, Municipal Law; Colleen Capece, County Accountant; Christina Capobianco, Chief Deputy Controller; Rich Tortora, Capital Markets Advisors; Brian Petersen, AVZ Accountants; Shai Markowitz, Citi; R. Bagley, Hawkins, Delafield & Wood.

Absent: Robert Fonti, Independent Director, STASC.

Minutes Approved: The minutes from the December 16, 2011 meeting were approved.
J. Morgo made the motion, T. Pearsall seconded. Minutes approved.

Resolution to authorize 2012 securitization: The resolution authorizes the securitization transaction in an amount not to exceed $45 million and provides J. Morgo and T. Pearsall with the authority to execute all necessary documents to effect the securitization.

R. Tortora led a discussion about the rating agency fee. Although he believed he had struck a deal for a fee reduction from $200,000 to $50,000, it seems that might not be the case. The reduction was based upon the change from the structured finance group to the public finance group of S&P. However, since Fitch, and not S&P, rated the 2008 securitization, S&P must now review that transaction as well. R. Bagley stated that this was a "speed bump." He pointed out that since the 2012 securitization is derived from the 2008 transaction, it makes sense that S&P would need to review it. He further noted that turnover at the rating agencies has been great and there have been few tobacco deals done since 2008. Due to the additional review, the fee may increase from the negotiated $50,000. R. Tortora and S. Markowitz believe that the fee will be $100,000. The additional review will delay receipt of the rating to about March 19.

C. Corso expressed concern regarding the pre-2008 disputed payments and the County's ability to continue to budget for their receipt. She pointed out that STASC is not authorized to transfer the right to collect any pre-2008 disputed payments. However, the structure of the 2012 transaction could place their receipt by the County at risk. The 2012 structure provides that those payments flow to the County only if all debt service accounts have been funded and an Event of Default does not exist. However, a reasonable degree of assurance exists that those payments will flow to the County. D. Brown pointed out that the 2008 resolution states that the pre-2008 disputed payments are not part of encumbered funds and the tobacco asset authorized to be sold by the County to STASC was net of those disputed payments. There was a question as to whether the 2012 resolution authorized the county to sell its entire ownership interest, which, by definition, includes the rights to the pre-2008 disputed payments. R. Bagley will review the resolution and provide a definitive answer to the directors. R. Bagley will also review the consumption projections to determine whether the disputed payments are "at risk" in the 2012 deal. C. Corso asked whether STASC had the authority to "give up" rights to those disputed payments. D. Brown replied that the Legislature approved the 2012 Purchase and Sale Agreement which included the pre-2008 disputed payments. R. Bagley sated that the pre-2008 disputed payments were sold but they were part of the unencumbered trust and the County is assured receipt through the operation of that trust. The 2012 documents authorize the sale of the 2008 beneficial ownership interest which includes pre-2008 disputed payments. C. Corso stressed that the directors are very concerned that the 2008 transaction could run in the negative. R. Bagley assured the directors that the pre-2008 disputed payments will never be available for 2008 turbo redemption.

The discussion turned to timing for the release of all disputed payments. R. Bagley informed the group that only the 2003 payments are in arbitration at this time. The issue with New York is the treatment of cigarette sales on Indian reservations. NY does not treat reservation cigarettes as units sold and does not tax them. The cigarette manufacturers want them taxed. NY's consent decree, to which the New York counties are a party, provides that NYS will not materially adversely affect receipt of MSA. The investor community wants a settlement. J. Morgo asked whether it would help if the County Executive and the Legislature were to promote a settlement. R. Bagley pointed out that any such letter would need to be carefully worded so as not to breach covenants with the bondholders. R. Bagley will review draft letter.

A brief discussion was had regarding the "Additional Bonds Test" to be included in the Indenture. R. Tortora explained that the test sets a high bar for coverage that has to be proved in order to issue additional bonds.

A vote on the Resolution was then had. J. Morgo made the motion, T. Pearsall seconded. Resolution approved.

Taxable v. Tax Exempt Bonds
It is anticipated that $3.8 million taxable bonds will be issued. Taxable bonds are necessary since a portion of the bond proceeds will be used to fund capitalized interest and working capital.

Financial Statements
B. Peterson reviewed the draft financial statements with the group. He pointed out that $224,000 is available in the general fund to pay operating expenses in 2012; TSR was $7.5 million and there was had been extra funds for a turbo-redemption in 2011. For 2011, the aggregate MSA payment was down 5% from 2010 as the result of a large decline in tobacco consumption and an increase in disputed payments. As a result, Fitch downgraded several series of the STASC 2008 bonds. R. Tortora pointed out that a rating downgrade requires that a material events notice must be filed. R. Bagley asked whether R. Tortora and CMA are doing the EMMA filings. Answer was yes.

The net deficit shown in the financial statements is based on a full accrual structure. Beginning with 2013, the deficit will begin to decline since the amount of TSRs to STASC will be increased to 75%. A discussion was had regarding the time at which the lien on the bonds will be released. B. Peterson asked whether the lien would be released when the last bond matures in 2048. R. Bagley responded that the lien remains in place until all of the 2008 bonds are paid off. He further pointed out that the County gets only residual revenues.

Next, a discussion was had regarding operating expenses. Concern was raised that turbo bondholders might object to the fact that the General Fund balance is $224,000 and question the need for a $200,000 transfer for operating expenses in 2011. Any amounts not so transferred would have been available in 2011 to pay down turbo bonds. R. Bagley stated that a reserve of $200,000 is reasonable since it is the equivalent of two years of operating expenses and it is important to realize that if consumption declines, monies might not be available in the future. The concern would be if there was a depletion of liquidity reserves to pay operating expenses.

The discussion then turned to deficit planning. B. Petersen pointed out that that the minimum debt service payment in 2012 will be $7.5 million; however, he projects that there will be a shortfall of approximately $40,000. J. Morgo requested that a report be drafted to show various scenarios based upon different TSRs. S. Markowitz will assist B. Petersen to prepare. R. Bagley to send B. Petersen the New York consumption report.

A vote was had to authorize AVZ to release the 2011 Financial Statements to the auditors. J. Morgo made the motion, T. Pearsall seconded. Motion approved.

Adjourn: Motion to adjourn was made by J. Morgo, seconded by T. Pearsall. Motion approved.