

**MEETING OF THE
SUFFOLK TOBACCO ASSET SECURITIZATION CORPORATION**

The Meeting of the Suffolk Tobacco Asset Securitization Corporation, a Local Development Corporation formed under Section 1411 of the New York Not-For-Profit Corporation Law, was held at the Offices of the Suffolk County Executive, 100 Veterans Memorial Highway, Hauppauge, New York, on June 20, 2008.

MEMBERS PRESENT:

James Morgo - Chairman and President
Terrence Pearsall - Treasurer and Secretary
Bob Venero - Vice President and Assistant Secretary

ALSO IN ATTENDANCE:

Dennis Brown - Assistant County Attorney
Joan Sikorsky - Suffolk County Comptroller's Office
Amy Engel - County Executive's Office
Bob Smith - Hawkins, Delafield and Wood
Richard Tortora - President, Capital Markets Advisors, LLC/Financial Advisor to Suffolk County

VERBATIM MINUTES TAKEN BY:

Lucia Braaten, Court Stenographer

[THE MEETING WAS CALLED TO ORDER AT 1:20 P.M.]

MR. MORGO:

All right. I am resuming the meeting of the Suffolk Tobacco Asset Securitization Corporation, STASC. I apologize for starting -- beginning late. It is now about 1:20 p.m. I was rushing to several other meetings and I had a salad and I've removed my glasses and I left them.

MR. BROWN:

Is that off the record?

MR. MORGO:

That's on the record. Would you, please, get that? It's very relevant.

MR. LIPP:

Did you eat the salad?

MR. MORGO:

The salad was fine. Thank you, Robert. This meeting follows yesterday's meeting where we went into public session. We had a vote and went into Executive Session. We spent about three-and-a-half hours in negotiations, and they were very worthwhile, I thought. And the last item on the agenda is the selection of the lead underwriter and the team, knowing underwriting parlance, a book runner for the securitization of our tobacco settlement revenue.

I would like the County's Financial Advisor at this moment to recap, as best he can, those three-and-a-half hours, what took place, and try to capture the feel of the negotiations, if you would, Rich.

MR. TORTORA:

Sure. What I'll do is just take a minute and talk about the process that we went through, just to bring everyone up to speed to the extent that anyone missed it. As everyone knows, the County, with STASC, prepared an RFP, a Request for Proposal, for underwriters and circulated it.

MR. BROWN:

If I could correct it, it's actually STASC prepared it. STASC prepared it, with the aid of the County.

MR. TORTORA:

Thank you. Okay. STASC prepared and circulated, with the aid of the County, a Request for Proposal for underwriters for tobacco securitization. That went out on the 27th of May. It was published, it was posted on the County's website. Over the ensuing, almost, two weeks, the County received questions through the Purchasing Department, which they responded to, from the various firms interested in responding.

MR. BROWN:

Can I stop you again?

MR. TORTORA:

Sure.

MR. BROWN:

I don't think it was posted on the website, it was a direct E-mail.

MR. TORTORA:

Okay.

MR. MORGO:

It was a direct E-mail.

MR. TORTORA:

Okay. Excuse me. We received proposals on June 6th, which was the receipt date for proposals, and, at that time, we received several proposals. We reviewed them over the course of the ensuing week, and on the 13th of June, we had interviews with four firms, and they were the four firms that we were in agreement were the leading firms to provide these services to STASC, and they were -- one firm consisted of a team, Goldman Sachs and Lehmann Brothers, the second was Citigroup, the third was First Albany, DEPFA, and the last was Merrill Lynch. We interviewed the four teams of firms last Friday for an hour or so each, went through a whole host of questions, in addition to listening to presentations.

We decided that there were two leading firms at that point, and we decided the leading firms were Merrill Lynch and Citigroup. We called both of those firms back for another round of questions and negotiations yesterday. We spent maybe an hour, hour-and-a-half with each of those firms, discussed at length their ideas, what they thought the best structure would be for this issue. We talked about their proposed compensation and negotiated with them what that proposed compensation should be. We talked about how bonds would be allocated amongst a lead underwriter and co-managing underwriters. We talked about perhaps what composition would make sense, what firms might be helpful to assist in selling these bonds, and then we deliberated again, or the group deliberated again. This morning, we come back to make a decision based on those, the results of negotiations, the result of deliberations that went on yesterday following the meeting. So with that, I think I'd pass it back to you.

MR. MORGO:

Okay. We have -- you should have the resolution before you, Gentlemen. I am going to ask for a motion and a second to approve the resolution. But, for the record, I will read the "Resolved", because it's in very large type and I can. I'm going to ask Dennis to read the operative second part of the resolution, the selection of the underwriter.

So the "Resolved" is, "Now, therefore, be it resolved by the Board of Directors of the Suffolk Tobacco Asset Securitization Corporation, that," and Subsection 1 is just general, where we are. But Subsection 2, is, as I say, the essence of the resolution. Would you, Dennis, please?

MR. BROWN:

Sure, yeah. The second "Resolved" is the Selection of the Underwriter, and it says, "The Treasurer of the Corporation has prepared and distributed Request for Proposals from qualified investment banks to act as underwriter of the Series 2008 Bonds, and in response thereto, the Corporation has received proposals from seven qualified firms. The Board has reviewed such proposals and, with the assistance of the Corporation's financial advisor, has determined that Citigroup Global Markets Advisors, Inc. is hereby selected and appointed to serve as Senior Managing Underwriter for the proposed issuance of the Series 2008 Bonds, and that Merrill Lynch, DEPFA First Albany, and Stern, Agee and Leach are hereby selected and appointed to serve as underwriters for the proposed issuance of the Series 2008 bonds." And, for the Reporter, if you didn't get that, I could give you a hard copy.

MR. MORGO:

And just read the effective date.

MR. BROWN:

It's to be effective immediately upon approval by the Board.

MR. MORGO:

All right. Is there a motion?

MR. VENERO:

Motion.

MR. MORGO:

Bob Venero. Is there a second?

MR. PEARSALL:

Second.

MR. MORGO:

Okay. On discussion, and I would like some discussion before we vote. One of the things that I checked with Dennis just now, but I would want to get it on the record, during yesterday's negotiations and deliberations, there were a lot of pointed questions, and during the interview, a lot of you helped in getting us the best terms I think possible. But Dennis asked a question as to, if we were to approve a certain lead underwriter, would there be some way, through a corporate resolution, to codify their acceptance of the terms they provided yesterday and -- go ahead.

MR. BROWN:

Yeah, exactly. The question was posed as to whether or not the people that were here had the authority to, in fact, bind the Corporation, and the representation was made to us that they did have the authority, and that I would expect that we would get a written resolution from Citibank as the lead -- as the lead underwriter to corroborate, substantiate what was represented to us, actually, by an attorney. Tom Green is an attorney.

MR. MORGO:

Okay. Would you like to add anything to that, from our Transaction Counsel, no?

MR. SMITH:

No, not at all.

MR. MORGO:

Okay? Any other discussion? I did want to get that on the record, because I thought that was important.

MR. LIPP:

And just for the record, you're referring to the costs, the take-down as opposed to the structure of the deal, because that's a fluid sort of thing.

MR. MORGO:

We are referring to how they presented it, that there would be structure. The second thing I want to clarify --

MR. LIPP:

I'm not sure I understand that, since there were several scenarios.

MR. BROWN:

It was with respect to the cost, the take-down.

MR. LIPP:

Right.

MR. BROWN:

With respect to the expenses, it --

MR. MORGO:

The deal.

MR. BROWN:

With respect to the team, that's what was promised to us.

MR. MORGO:

And how they would present the yield and how -- and the whole function of the sale and the marketing of the bonds.

MR. BROWN:

Their strategy.

MR. LIPP:

Right. But unless I'm missing something --

MR. BROWN:

Not the rate.

MR. LIPP:

Right.

MR. MORGO:

Not the rate.

MR. LIPP:

Okay. Unless I'm missing something, you know, the actual structure of the deal still is not clear. That has to be worked --

MR. MORGO:

Right.

MR. LIPP:

Okay.

MR. MORGO:

I'm looking at the bigger picture, Bob -- Robert. Terry?

MR. PEARSALL:

Yes. Resolved Number 2, Selection of the Underwriter, "The Treasurer of the Corporation," me, "has prepared." I didn't prepare it.

MR. BROWN:

It's true, I did.

MR. PEARSALL:

Exactly.

MR. BROWN:

I did the writing.

MR. PEARSALL:

I think that should be clarified.

MR. SMITH:

I think that's what was in the original resolution, that we delegated -- that that authority was delegated to the Treasurer as a power. I think Dennis did it on your behalf. But I think that if

you have that first resolution handy, the one from the Organizational Meeting --

MR. BROWN:

I did not bring the first resolution today.

MR. MORGO:

The organizational resolution.

MR. SMITH:

I believe that you delegated that authority to the Treasurer to prepare, and I think, technically --

MR. MORGO:

Remember, that was -- the Transaction Counsel prepared it. It was all in that organizational --

MR. PEARSALL:

The big packet.

MR. MORGO:

Yeah.

MR. SMITH:

Yeah.

MR. MORGO:

Okay. Anything else? Go ahead, Terry.

MR. PEARSALL:

That's it.

MR. MORGO:

All right. Richard, I'd like you to explain the distribution of the deal.

MR. TORTORA:

Sure. Something that we spent a lot of time negotiating yesterday with the bankers is how these bonds would actually be distributed once they're in the market. So one thing we agreed on is, to attract the lowest interest rate, we're going to have a retail audit period, which is typically one day, the first day we go out to the market, at which time the underwriters, all four of them, would be actively soliciting sales to retail investors. The reason why we like that is retail investors typically will take a lower return on their investment than institutional investors.

MR. MORGO:

If I may, Robert, that's what I'm talking about, the way the -- remember that came up? Go ahead.

MR. TORTORA:

On the second day, then the sale would be opened up to the institutional investors. What we had proposed, we want to come up with a designation strategy in terms of how the bonds are actually designated to each of the four underwriters, and that rewards those that do the best jobs for us, that bring in the most orders, as opposed to just allocating certain percentages to certain underwriters and they basically get it whether or not they actually sell bonds. So the thought was we would -- in the designation policy, on the date of pricing, we would have the underwriters -- we would set the policy. But, basically, they would say that the purchase orders, when they come in, would be designated, and not less than say 60% would be designated to our lead underwriter, perhaps not less than 5% to each of the three co-managing underwriters. So 75% of the deal would come in designated. Then the balance of the deal, 25%, would go to whichever underwriter actually sells the bonds. So there would be a great economic incentive to

the underwriters to go out there and work and sell these bonds as aggressively as they can. Of course, you sell to the lowest bidder, so we're hoping that that designation policy results in the best interest rates we can get. And that was one of the several things we accomplished via negotiation yesterday. And we spoke to them subsequently and they agreed that that policy would work for them.

MR. MORGO:

That's a key point.

MR. TORTORA:

Certainly is.

MR. MORGO:

The preference of the two finalists, wanted -- they wanted more of the deal, obviously. But in this way -- and you know far, far more about this than I, usually, conventionally, set percentages are designated, right, Richard?

MR. TORTORA:

That's correct.

MR. MORGO:

And this way we're encouraging competition, and that really will determine a better return for us on our deal. Okay? All right. Anybody else?

MR. LIPP:

Just out of curiosity, is it because the financial markets are hurting so bad that they're willing to do this?

MR. MORGO:

We discussed that. Go ahead.

MR. TORTORA:

You know, at the end of the day, it's your deal, because you could designate the terms as you need to.

MR. LIPP:

Right. But I, as a bidder, could say, "Well, that's not acceptable."

MR. TORTORA:

The bidders actually like that policy. They like --

MR. MORGO:

They both thought they were going to be lead.

MR. TORTORA:

The bidders like to reward the bankers that provide them with services once they hold the bond, you know, secondary markets and create a market to buy and sell bonds. So bidders like to be able to designate who gets credit for their sale, as opposed to them putting in an order and maybe someone they never even spoke to gets credit for the sale.

MR. MORGO:

Bob, I was going to mention, and I remember, you were here, we asked them both why they wanted the deal so badly and I thought their answers were different, if you recall. And I thought Citi's answer was a broader, more analytical, thought about the market, New York State being different, whereas -- well you remember the other answer.

MR. LIPP:

Yeah.

MR. MORGO:

Okay. Any other -- any other --

MR. PEARSALL:

Yeah. There's going to be a question, and it came up today at the Legislature. Do we have any ballpark figure of what we're going to get on the dollar?

MR. TORTORA:

That, in part, is a function of how they structure the deal, whether they use capital appreciation bonds or convertible capital appreciation bonds and current interest bonds, and they're going to use a mix of those three. It really depends on what the ultimate structure is. We'll know that as we go forward, but we don't know definitively right now.

MR. MORGO:

As I said yesterday, Terry, and why I mentioned that here, the thing is, we still, although if we do pass this resolution, we're not finished --

MR. PEARSALL:

Right.

MR. MORGO:

-- because we still have to have -- we will be having presentations to the Legislature. There is the compare and contrast with the sale of tax liens. So that question, when we're further down -- now I'm asking you, Rich. When we're further down, we'll have a -- we'll know the yield, we'll --

MR. TORTORA:

Oh, absolutely, sure. We won't know definitively until the day we price the bonds and get our interest rate, but we'll have a good idea as we get closer for sure.

MR. MORGO:

Joan.

MS. SIKORSKY:

The retail audit period will be group net. Everybody who sells the bonds will get their bonds, and then the allocation will be done as a result of performance, which is a great structure. Relative to whether the securitization will commence out in 2013 or 2009 has not been determined as yet, right?

MR. TORTORA:

That's right.

MR. MORGO:

That's right.

MS. SIKORSKY

We're considering those scenarios. If there was a -- this is more to Dennis. If there was a determination to commence in '09, significant, which that seems to be in my mind, from some of what we were listening to relative to one of the largest institutional purchasers not willing to look at something going out further, that they want to see the securitization commence right away. Pat reviewed some of the resolution and also the RFP itself. Do you feel that it would be necessary when the Legislature, should Tobacco go forward and that be the choice over tax lien, do you feel that it would be -- it would need to be recited in the agreement and the

resolution of the Legislature to commit the County to begin the securitization in '09, since the RFP really said the County was intending to commence in '13?

MR. BROWN:

The RFP gave that -- gave that as one assumption, 75% commencing in 2013 to net 175 million. But, if I'm not mistaken, the RFP also called for alternative proposals.

MS. SIKORSKY

I don't see it in the RFP.

MR. BROWN:

Did it say -- it wasn't in the last --

MS. SIKORSKY:

I think it's in the lien.

MR. BROWN:

No. It was in the last line of the technical services aspect?

MS. SIKORSKY

I asked Pat to review that and she felt that that one wasn't in there.

MR. MORGO:

I certainly want that latitude.

MS. SIKORSKY

Not that it's a problem. I think that --

MR. MORGO:

They all responded, they all gave that scenario.

MS. SIKORSKY:

It's an issue that could be addressed, but it may be something that would have to be recited in a subsequent resolution to have an agreement with the --

MR. MORGO:

Well, it has -- not that it has to be, it should be disclosed, obviously, so it would be.

MS. SIKORSKY

I think it was in the lien once about the creative ideas, but doesn't seem to be in that one.

MR. LIPP:

So you're saying it may be required in the subsequent resolution?

MS. SIKORSKY:

I think it would be. I'm leaving it to Counsel.

MR. LIPP:

We could find that out.

MR. MORGO:

Yeah.

MS. SIKORSKY:

I'm leaving it to Counsel, if that's the choice. But, obviously, I have a big concern about Rochester, if the statement that was made and represented by one of the competitors, if that

was, in fact, a valid statement. That is, you know, a very significant issue that really would require the '09 --

MR. MORGO:

And that's how they can get rid of the CABs.

MR. BROWN:

Also, with respect to the scope of services, it does say the proposal should generate approximately 175 million in net proceeds of Suffolk County at closing, which has been -- which is a goal, and maybe might even end up maybe more. And it also says that Suffolk's intention to securitize not more than 75% of tobacco revenue commencing in the 2013 calendar year. I really don't read that as locking us into the only type of assumption that --

MR. TORTORA:

We try to give them parameters, so that the proposal will kind of be apples to apples.

MS. SIKORSKY:

Oh, that's fine. No, I'm not trying -- you know, I'm just expressing concern --

MR. TORTORA:

No, I understand, that's fine.

MS. SIKORSKY:

-- so that we make sure that it's covered and it needs to be specific language at the time you return to the Leg., that it's in there.

MR. MORGO:

And when you actually have the sale agreement, it would have to be in the sale agreement. I think it would be anyway.

MR. BROWN:

That I do agree with you.

MS. SIKORSKY:

And the concern of the --

MR. BROWN:

No, we asked them to --

MS. SIKORSKY:

I'm very concerned about that, versus 2013.

MR. BROWN:

Well, we did ask them to work off of this assumption, and all of the investment banks came back with --

MR. MORGO:

I thought so, yeah.

MR. BROWN:

-- not only this assumption, but other assumptions as well, and I would not read this assumption as limiting our choices to only this assumption.

MS. GRIMES:

No. We just wanted to --

MR. BROWN:

And the reso, the reso forming the LDC, or I.R. 1307, neither speaks to only this scenario. And the reso forming the LDC also requires that the LDC go back to the Legislature for approval of the sale agreement.

MS. SIKORSKY

Right, which I know. It's just that --

MR. BROWN:

So I think that all of those factors --

MS. SIKORSKY

If it's being addressed for a level playing field, that needs to be addressed, that it is just covered and that that prime issue --

MR. MORGO:

You remember in the presentations of June 13th, they all had -- they had a lot of different scenarios that they were coming back with us. Remember the whole thing about recourse, nonrecourse, the residuals and such?

MS. SIKORSKY:

Right, and that's their job.

MR. MORGO:

Yeah.

MS. SIKORSKY:

That's what they're supposed to do.

MR. MORGO:

Anyone else? Thank you, Joan. Anyone else? Okay. Seeing none, I'm going to call for a vote now.

MR. PEARSALL:

Mr. Chairman.

MR. MORGO:

Yes.

MR. PEARSALL:

Could we amend that section to read, "The Treasurer of the Corporation, in accordance with the provisions of the Resolution Number 1, adopted on May 27th, 2008, has prepared"? I'd like to see reference to that resolution that we adopted.

MR. BROWN:

And I would say that you could -- we could consider it deemed amended on the record. Do you agree, Bob.

MR. SMITH:

Sure. Yeah, that's fine, that's fine.

MR. MORGO:

All right. So we're voting on the resolution as amended.

MR. PEARSALL:

As amended.

MR. MORGO:

I'm going to vote on the entire resolution as amended, if I have no parliamentarian who's going to object to that.

MR. PEARSALL:

No.

MR. MORGO:

All right. All those in favor? Opposed? Okay. It carries. (*Vote: Approved 3-0-0-0*).

Congratulations. We're at the end of the beginning. We're at the end of the beginning. Okay. Is there any other business to come before us? Seeing none, I am going to entertain a motion to close this meeting, and I'm not going to say -- STASC. Is there a motion to close? Bob. Second, Terry. All in favor? Aye.

Thank you all for participating, and I expect your participation going forward.

[THE MEETING WAS ADJOURNED AT 1:42 P.M.]