

**Meeting of the Suffolk Tobacco Asset Securitization Corporation
(STASC)
August 10, 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, County Executive Assistant, Brian Petersen, AVZ, Anthony Nash, Capital Markets Advisors, Nina Petraro, Farrell Fritz and Chuck Mattern, AVZ.

Minutes Approved: The minutes from the December 1, 2010 meeting were approved. T. Pearsall made the motion, J. Morgo seconded. Approved unanimously.

Action on Consent Appointing Members of the Board of Directors: The County Executive, Steve Levy, acting as the sole member of the STASC board, appointed members of the Board of Director. The Directors include: Jim Morgo, Terry Pearsall, Bob Fonti and ex-officio Connie Corso. The Action on Consent was approved.

Discussion of STASC website: It was agreed that the STASC website can be hosted by the County with a simple link to STASC through the County's home page.

Resolution authorizing AVZ to submit and certify Public Authorities Reporting Information System (PARIS) report on behalf of Chairman; T. Pearsall made the motion and R.Fonti seconded. Approved unanimously.

Omnibus Resolution related to Public Authorities Accountability Act:

There was a lengthy discussion about the PARIS reporting requirements prior to the following votes. After the discussion one Omnibus motion was made to approve all the resolutions. R. Fonti made the motion, T. Pearsall seconded. It was approved unanimously.

- Resolution establishing Internal Controls
- Resolution adopting Whistleblower Policy
- Resolution adopting Investment Policy: There was a brief discussion affirming the fact that STASC does not have any investments.
- Resolution adopting Travel Policy: It was agreed that any travel that will be compensated, for instance for state mandated training sessions, will need to be authorized travel approved in advance by the Board of Directors. The travel expenses will be reimbursed once appropriate documentation is provided.
- Resolution adopting Compensation, Reimbursement and Attendance Policy
- Resolution adopting the Code of Ethics

- Resolution adopting the Procurement Policy. We do Requests for Proposals prior to renewing any contracts for consultants.
- Resolution prohibiting the Extension of Credit
- Resolution adopting 2010 Financial Statements There was a brief discussion about the financial statements. AVZ explained that there is a deficit because STASC is not getting the full amount of the turbo redemption. The bonds were set up and sold as turbo bonds and in different tranches. Some of the tranches are not paying the debt service yet. In reality it is only a ‘paper’ deficit. However, it does show as a liability. We are getting 36% of the revenue stream and the future revenue stream is dwindling. The fact that they are diminishing means that the county made a smart business decision to securitize and to transfer risk to investors and away from taxpayers. According to GASB 48, we can only recognize a negative fund balance.
- Resolution adopting Mission Statement
- Resolution adopting the 2010 Budget
- Resolution approving 2011 Budget
- Resolution approving the 2010 Annual Report. It was noted that Fitch downgraded us three times in reference to the Series 2008 B bond series.
- Resolution establishing the Annual Review of Policies and Guidelines

Self Evaluation Form and Fiduciary Duty forms: It was agreed that Board members will need to complete the self evaluation form and fiduciary duty forms independently and then submit them to AVZ. Once the completed forms are received, AVZ will upload and/or submit the forms to the New York State Authority Budget Office (ABO) compliance department.

Disputed payments

There was a discussion about the disputed payments with regard to the Attorney General’s office. It is costing us 5.2% in disputed payments. It was agreed that STASC will draft a letter to the NYS Attorney General and we will copy NYS Senator Skelos, NYS Assembly Speaker Silver, County Executive Levy and Presiding Officer Lindsay encouraging New York State to settle the case expeditiously because the loss of revenue is hurting local governments.

Total Withholdings to NPM Disputed Payment Account

(in millions)	2006	2007	2008	2009	2010	2011	Total
All MSA*	\$813.70	\$699.90	\$536.00	\$522.90	\$597.20	\$714.00	\$3883.70
New York State	\$103.9	\$90.4	\$68.4	\$66.7	\$76.2	\$91.1	\$496.7
Suffolk County (est.)	\$2.8	\$2.4	\$1.8	\$1.8	\$2.0	\$2.4	\$13.2

*Master Settlement Agreement (MSA) – Independent Auditor recently determined that Participating Manufacturers collectively lost market share for 2010. Analysis will not commence before April 2012.

100% of the disputed payments from 2006-2008 are owed to Suffolk County regardless of when they are paid. Whatever monies in the disputed payments account are determined to be owed to New York State from 2006 to 2008, will eventually flow through STASC (as all tobacco monies do) and then be sent to the County in full. Monies in the disputed payment account from 2009 and thereafter are subject to the County's pledge to STASC, 36% in 2009-2012 and 75% in 2013 and thereafter until the tobacco bonds are paid off. The precise amount of Non- Participating Manufacturers (NPM) adjustments for 2003-2009 will not be finally determined until 2012 or thereafter.

For 2011 R.J. Reynolds withheld \$477 Million and Phillip Morris withheld \$267 million.

Market Overview: Anthony Nash of Capital Markets Advisors, the STASC financial advisor, explained that there are much lower Tobacco Settlement Revenues (TSR) receipts because the tobacco companies are losing market share. He also said that consumption is down more than anticipated. Due to the lower receipts, STASC has not been able to make the turbo payments we had anticipated making. According to the Fitch Agency model, the market has a much more positive outlook. There was a brief discussion about whether to keep utilizing Fitch as the STASC rating agency and it was agreed that we should.

Debt Service and Redemption: The market overview conversation led to a discussion about whether or not STASC is in jeopardy of defaulting on the bonds. That is very unlikely because we have a liquidity reserve fund and there is 4% interest on the liquidity reserve. We only tap the liquidity reserve fund if there is a shortfall in paying the debt service requirements. It's possible that STASC may default in the long term, for instance, in the year 2048 for the Series D bonds, if nothing improves between now and then.

Current Ratings:

2008A	BBB+	Stable outlook
2008B1	BBB-	Negative outlook
2008 B2	BB+	Negative outlook
2008 C	BB+	Negative outlook
2008 D	B+	Negative outlook

RFP for professional services. There was a brief discussion about conducting annual RFP's for the STASC professional services. It was decided that we will do RFP's for accounting, legal, auditing and financial advising later in the year or the beginning of next year.

Supplemental Retainers: There was a follow up to the earlier discussion about professional legal services. Farrell Fritz indicated that they currently bill us at their standard rate and if there is any kind of fee for separate services they will communicate with us in advance. They have handled all of the legal issues concerning the PARIS compliance. AVZ has handled all of the accounting and financial issues regarding the PARIS compliance. AVZ has also already met their current budget for 2011 due to the extra PARIS compliance work. They proposed a resolution that will allow their continued services, under the terms of their current contract. If any additional work needs to be done, they will inform STASC of the scope of the work prior to commencing. T. Pearsall made a motion to authorize another \$5,000 retainer for AVZ. R. Fonti seconded. It was unanimously approved.

Executive Session: There was a short executive session held to discuss the terms of the existing contracts. At the end of the Executive Session, the full board reconvened.

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